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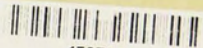
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Friedman UNCTAD Files - IMF Memoranda on Aug. 1966 - May 1969
Compensatory & Suppl. Financing

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1787054

Irving Friedman UNCTAD Files: IMF Memoranda on Compensatory and Supplementary
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DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

Secretary - Bank

SM/69/67

Room 211

#12

May 22, 1969

MAY 26 1969

2 pm

To: Members of the Executive Board

From: The Secretary

Subject: Economic Commission for Europe - Report on Twenty-Fourth Session

Attached for the information of the Executive Directors is a report, prepared by the Fund observer, on the twenty-fourth session of the Economic Commission for Europe held in Geneva from April 9 to 23, 1969.

Att: (1)

Other Distribution:
Department Heads
Division Chiefs

INTERNATIONAL MONETARY FUND

Twenty-Fourth Session of the Economic Commission for Europe

Report by the Fund Observer

May 22, 1969

The twenty-fourth session of the Economic Commission for Europe was held in Geneva from April 9 to 23 under the Chairmanship of Mr. Mateev from Bulgaria. One of the major items on the agenda of the session was the reorganization of the Commission's activities and the rationalization of its method of work.^{1/} Discussions of more direct interest to the Fund concerned East-West trade and the review of the economic situation in Europe. The Fund observer was Mr. Pierre Simonet of the Office in Geneva.

1. Organizational matters

At the previous session the newly appointed Executive Secretary, Mr. Stanovnik, had been requested^{2/} to prepare a detailed report containing suggestions and proposals for the reorganization of the Commission's activities and the reshaping of its long-term work program, structure and method of work in the light of progress achieved by member countries in the field of industrialization, science, and technology.

In his opening statement the Executive Secretary introduced the report containing his proposals. He suggested that the Commission should give special emphasis to work in four main areas in which closer cooperation would offer the greatest potential benefits, namely (1) application of science and technology, (2) environmental improvement, (3) long-term economic projections and planning and (4) promotion of trade. These suggestions were widely supported and the specific proposals concerning committees and working parties were endorsed by resolution.^{3/} The Commission invited the Executive Secretary to report to its twenty-fifth session on the implementation of the resolution.

As one of the early results of this reorganization, a meeting of Governmental Experts on Problems Relating to Environment^{4/} will be held in Czechoslovakia in the spring of 1971. It is also envisaged to convene periodic meetings of Senior Advisers to ECE Governments on Environmental Problems as one of the principal subsidiary bodies of the Commission. The

^{1/} See Appendix I.

^{2/} See SM/68/101.

^{3/} See Appendix II.

^{4/} An International Conference on the Problems of Human Environment will be held in 1972 under the auspices of the United Nations.

primary responsibility of the Commission in the field of environment will be the consideration of economic policy aspects and of organizational and institutional problems arising in the ECE region. Long-term economic projections and planning will be the topic for discussion of the next session of Senior Economic Advisers to ECE Governments. Another group of Senior Advisers is to be established to deal with science and technology.

Also as part of the reorganization process, the Annual Meeting to review Operations under the Multilateral Compensation Procedures will no longer be conducted as a separate exercise of the Committee on the Development of Trade; instead, the relevant business will be considered in the normal course of the Committee's work. Since July 1957, when the compensation procedures began, transfers totaling about US\$136 million have been arranged. However, the volume of such compensation has consistently declined over the last few years and amounted to a very small amount in 1967/68.

2. East-West trade

The report by the Executive Secretary also reviewed the development of East-West trade. It noted that intra-European trade had grown by an average of about 10 per cent per year over the past fifteen years, and East-West trade in Europe had shown an increase over this period averaging more than 11 per cent per year. On the other hand, European countries' trade with the rest of the world had increased by an average of less than 6 per cent in the period since 1952. The growth of East-West European trade had occurred in a context of increased industrial cooperation, but efforts to remove a great variety of nontariff barriers and to apply the principle of most-favored-nation treatment to East-West trade have so far remained largely unsuccessful. Resolution I (XXIII), adopted at the last session of the Commission in May 1968, noted that the Committee on the Development of Trade had so far been unable to prepare draft recommendations on the removal of such obstacles and requested the Committee on the Development of Trade to continue its efforts with a view to the preparation of mutually acceptable recommendations in this field. No progress was achieved at the eighteenth session of the Committee on the Development of Trade held in July 1968. At the present session of the Commission the political climate seemed more propitious and members of the Commission found it possible to adopt a more specific recommendation sponsored by Hungary, the Netherlands, Poland, and the United Kingdom. Its operative paragraph requests the Executive Secretary to prepare an analytical report on the state of intra-European trade, which would enable mutually acceptable recommendations for the removal of economic, administrative and trade policy obstacles to the development of trade between countries with different economic and social systems. 1/

In addition to this task of a broad policy nature, the Commission will continue its work on practical measures contributing to the development of trade. In particular, it will study the use of long-term agreements and contracts in economic and trade relations between countries of eastern and western Europe. It will prepare long-term export and import forecasts for certain categories of goods, particularly manufactured

1/ See Appendix III.

goods, with a view to assisting governments in obtaining more accurate estimates of long-term prospects for trade. It will initiate a study of the practices followed in the trade in machinery, equipment, patents, and licenses.

3. Review of the economic situation in Europe

For the discussion of this item, the Commission had before it as background documents the Economic Survey of Europe in 1968 prepared by the secretariat.^{1/} Part I of the Survey deals with recent economic developments in Western Europe, Part II with Eastern Europe and the Soviet Union, and Part III contains a study on the determinants of the labor supply in Europe, 1960-1980. The Survey contains a fairly detailed account of the stage reached in the economic reforms in the socialist countries and explains that further experimentation is in progress. It also explains the efforts by certain CMEA countries to attain in the future a certain measure of convertibility of their domestic currencies. In this respect, reference was made to a note on Institutional Developments in the Foreign Trade of the Soviet Union and Eastern European Countries.^{2/}

In introducing the Survey, the representative of the secretariat noted that in Western Europe the year was marked by fairly uniform rates of growth of total output after the rather widespread hesitation of 1966 and 1967. GNP in 1968 was up by between 3.5 and 5.5 per cent in most countries, except for the Federal Republic of Germany where it was up 7 per cent. Current expectations were that the over-all growth rate in Western Europe was likely to be similar in 1969, although there might be some slowing down in the second half of 1969. 1968 had also been a year of very fast expansion of world trade, but the problem of balance of payments maladjustments still remained the central issue of policy on the international level and the central preoccupation of national policy for several western member governments.

In Eastern Europe, although rates of real national income growth in some countries showed a certain deceleration in 1968, they were still between 5 per cent and 7 per cent (8 per cent in Poland). Similar, or slightly faster, rates of expansion were expected for 1969. The increase in total output has been accompanied by further important and widespread changes in the organization of the economies and in the systems of planning and management. Basically the changes represented an adaptation of socialist societies to higher living standards and the new technological requirements. The representative of the secretariat described as one of the common trends in the economic reforms in several countries the substantial transfer of investment decisions from central authorities to enterprises or to associations of enterprises.

In the course of the discussion representatives of member countries commented on the economic situation and prospects in their own countries, and gave their views on the future orientation to be given to the Survey.

^{1/} A copy of this document is on file in the Secretary's Department.

^{2/} See Economic Bulletin for Europe, Vol. 20, No. 1, Part B.

The representative of Poland commented on the economic integration process among CMEA countries and recalled his Government's view that integration should be based not only on various forms and links of a planning character, but also on a wider use of market mechanisms. His Government also attached particularly great importance to an active use of monetary mechanisms which, as a matter of course, implied the introduction of more realistic exchange rates, and appropriate changes in the structure of internal prices so as to provide a closer link with world prices. The representatives of Hungary and Czechoslovakia spoke along similar lines.

Points of special interest to the Fund were made by the representatives of the United States and France. After an exposé of economic developments in the United States in 1968, the representative of the United States referred to the message of April 5 by President Nixon on international payments problems, and briefly outlined the measures envisaged to restore payments equilibrium, and the desire of the United States to find solutions in the framework of freer trade and payments. In his message the President had announced that the United States would continue to make its contribution to the strengthening and improvement of the international monetary system, in the conviction that an expanding world economy would require growing levels of trade with adequate levels of reserves, and with effective methods by which countries could adjust their payments imbalances. The President had also called for ratification by the members of the International Monetary Fund of the Special Drawing Rights plan and its early activation.

The representative of France, after having described the short- and medium-term outlook for his country, gave his government's views on the improvement of the international monetary system. He stated that the international payments system should be based on respect for a common discipline by all members and should ensure respect of the Articles of Agreement of the Fund and the full exercise of the role of that institution. In the present circumstances, the Fund should continue to play a central role--though not necessarily an exclusive one--in the international monetary system. The activation of SDR's should not minimize or impair this role; it should be conditioned by the collective judgement that there was an inadequacy in the volume of available reserves and should be contingent on the realization of better equilibrium in the balance of payments. The progress achieved lately in the latter field should be strengthened by actions on the causes themselves of deficits or of surpluses when the latter were too large. The representative of France concluded that further progress, were it only in improving international credit mechanisms or international cooperation, could be achieved in future international meetings provided that such meetings insist upon the role of gold and on the necessity to respect the Articles of Agreement of the Fund, which constitute and remain the charter.

Concerning the Executive Secretary's proposals for the future orientation of the Survey, there was general agreement that the Survey should increasingly focus on medium- and long-term trends in the European economy and on the key problems of policy as they arose. The relevance of analyses of changing economic structures as a basis for increasing European cooperation was stressed while, at the same time, the value of the Survey's summary of current short-term developments was recognized.

UNITED NATIONS
ECONOMIC
AND
SOCIAL COUNCIL

APPENDIX I

Distr.
GENERAL

E/ECE/718
29 January 1969

Original: ENGLISH

ECONOMIC COMMISSION FOR EUROPE

TWENTY-FOURTH SESSION

to be held in the Palais des Nations, Geneva
beginning Wednesday, 9 April 1969, at 11 a.m.

PROVISIONAL AGENDA

1. Adoption of the Agenda E/ECE/718
2. Election of Officers
3. Review of the economic situation in Europe
4. Work of the Commission as a whole, including:
 - (a) Work of the subsidiary bodies of the Commission 1/
 - (b) Resolutions bearing on the work of the Commission adopted by the Economic and Social Council and the General Assembly E/ECE/720
 - (c) Commission's contribution to the United Nations Programmes designed to assist less-developed countries E/ECE/721
E/ECE/743
 - (d) Relations and co-operation with other international organizations E/ECE/722
5. Long-term programme of work and the organization of the activities of the Commission (resolution 3(XXIII)) E/ECE/717 and
Add.1-5
6. Follow-up action on the relevant Commission resolutions and decisions:
 - (a) Meetings of Senior Economic Advisers to ECE Governments (decision H(XVIII)) E/ECE/723
E/ECE/714

1/ For documentation on this sub-item see the Explanatory Notes on the Provisional Agenda.

- | | | |
|-----|--|------------------------|
| (b) | Scientific and technological co-operation
(resolution 4(XXIII)) | E/ECE/724
E/ECE/716 |
| (c) | Meeting of Governmental Experts on Problems
Relating to Environment (decision C(XXIII)) | E/ECE/725
E/ECE/726 |
| (d) | Application of mathematical-economic methods
and Computer Techniques to Economic Research
(decision B(XXIII)) | E/ECE/727
E/ECE/728 |
| (e) | Work of the Commission relating to the chemical
industry (resolution 5(XXIII)) | E/ECE/729
E/ECE/715 |
| (f) | Industrial co-operation (resolution 6(XXIII)) | E/ECE/730 |
| (g) | Study of Long-term economic trends in the ECE
region (decision I(XXIII)) | E/ECE/731 |
| (h) | Energy problems in Europe (decision M(XXIII)) | E/ECE/732 |
| (i) | Tourism (decision D(XXIII)) | E/ECE/733 |
| (j) | Activities of the Commission in the field of
standardization (decision K(XXIII)) | E/ECE/734 |
| (k) | Problems of air pollution (decision F(XXIII)) | E/ECE/735
E/ECE/736 |
| (l) | Automation (decision G(XXIII)) | E/ECE/737 |
| (m) | Mechanical and electrical engineering
(decision J(XXIII)) | E/ECE/738 |
| (n) | Implementation of the Declaration on the
conversion to peaceful needs of the resources
released by disarmament (project 01.2.3.) | E/ECE/739 |
| 7. | Programme of work and priorities for 1969/70 and long-
term programme of work and priorities for 1970-74 | E/ECE/740 |
| 8. | Annual Report of the Commission to the Economic
and Social Council | |
| 9. | Any other business. | |

RESOLUTION 5(XXIV) LONG-TERM PROGRAMME OF WORK AND
THE ORGANIZATION OF THE ACTIVITIES OF THE COMMISSION

The Economic Commission for Europe,

Recalling the Declaration adopted by the Commemorative Meeting to celebrate the Twentieth Anniversary of the Economic Commission for Europe and in particular its operative para. 1 which called for: "active work and joint efforts in developing further the co-operation within the framework of the ECE which is in the interest of all nations and will promote the turning of Europe into a powerful factor of peace and understanding throughout the world"; and also its operative para. 4 in which it decided to concentrate its work in the most efficient way,

Recalling also that in its resolution 8(XXII) the Executive Secretary was invited to prepare a long-term programme of work, "with a view to including subjects related to new economic developments in the ECE region as a whole and to the problems of the less developed member countries",

Recalling further that in its resolution 3(XXIII) it had requested the Executive Secretary to prepare a report containing suggestions and proposals on the long-term programme, organizational structure, methods of work, and calendar of meetings of the Commission and its subsidiary bodies, and on the necessary adjustments in the existing structure, methods of work and calendar of meetings of its subsidiary bodies with a view to making improvements so as to enable the Commission to meet its existing and new tasks in a more rational manner,

Noting ECOSOC's request to its subsidiary bodies for review of their methods of work and their calendar of meetings contained in Council resolution 1264(XLIII),

Noting the constructive suggestions and proposals of the Executive Secretary submitted in E/ECE/717 and its Annexes to the 24th Session of the Commission in accordance with its resolution 3(XXIII),

Noting further that these suggestions and proposals are an important step in a continuous process of review of the Commission's programme and in the improvement of the Commission's institutional machinery and methods of work,

Considering that a long-term programme of work covering a period of 5 years will be useful for the Commission's purposes,

Conscious of the paramount need for economy throughout the United Nations system and confident that the Executive Secretary will, by a flexible use of the Commission's resources, achieve the maximum cost-effectiveness when putting his proposals and suggestions into effect,

1. Expresses its appreciation to the Executive Secretary for his report E/ECE/717;
2. Decides to endorse the Executive Secretary's proposals and suggestions, taking into account the decisions of the 24th Plenary under the relevant items of the agenda;
3. Decides to pay special attention to questions that are most conducive to improving and expanding co-operation within the framework of the ECE, such as the promotion of trade, particularly East-West trade, scientific and technological co-operation, long-term economic projections and planning as well as the problems of environment;

4. Invites the Executive Secretary
 - (a) to continue to submit to each future annual session of the Commission - in addition to the draft short-term programme of work covering a period of one year - a proposal for a long-term programme of work covering five years to be reviewed by the Commission at its annual sessions; and
 - (b) to continue to incorporate the short and the long-term programmes of work in the Annual Report of the Commission to the ECOSOC;
5. Requests its principal subsidiary bodies to review their long-term programme of work in the light of the relevant proposals and suggestions contained in Section II of the Executive Secretary's report E/ECE/717 with a view to achieving the priority aims of the Commission, as set forth in its Declaration of 1967, and in the relevant resolutions and decisions;
6. Approves, in general, the outline of modifications in the Commission's organizational structure, as set out in paragraphs 53-54 of E/ECE/717 and expresses its willingness to follow it when formulating its future policies on this matter;
7. Endorses the Executive Secretary's suggestions and proposals for the modification of the organizational structure and the calendar of meetings of the Commission's subsidiary bodies, contained in paragraphs 1 to XV, Annex II, E/ECE/717, and invites its principal subsidiary bodies to consider and to give effect to these suggestions and proposals and to report on measures taken in this respect to the 25th Session of the Commission;
8. Endorses the Executive Secretary's proposals as suggested in paragraphs XVI to XXII, Annex II, E/ECE/717, concerning new bodies and additional forms of organization, decides to take them into account in formulating its future policies on these matters and invites the Executive Secretary to make the necessary arrangements in order to implement them in accordance with the relevant resolutions and decisions of the Commission;
9. Decides to set up at the Commission's annual sessions a Sessional Committee with the task of examining the reports of the principal subsidiary bodies before their consideration in the Plenary and to consider any other business which might be allocated to it by the Plenary;
10. Invites the Executive Secretary to aim at the utmost economy and efficiency in implementing this resolution, particularly by channelling into the new activities resources released as a result of the completion of work on other activities; and
11. Invites the Executive Secretary to report to the 25th Session of the Commission on the implementation of this resolution.

RESOLUTION 3(XXIV) DEVELOPMENT OF FOREIGN TRADE

The Economic Commission for Europe,

Attaching great importance to the development of economic co-operation in the ECE region, particularly to the expansion of external trade,

Recognizing that mutually advantageous trade is one of the major forms of economic ties among countries having different economic and social systems, contributes to better understanding among nations and thus facilitates strengthening peace and security,

Considering that resolution 1 (XXIII) of the Commission constitutes a positive contribution to the creation of an atmosphere and of conditions favourable to the successful development of economic co-operation in Europe,

Noting with satisfaction that the Committee on the Development of Trade at its Seventeenth Session agreed to include in its programmes of work for 1968/69 and for 1969/72 as a continuing project and activity of high priority the preparation of practical proposals and recommendations for the removal of the economic, administrative and trade-policy obstacles to the development of trade between member countries of ECE, and

Desiring to undertake further steps to facilitate to the fullest extent possible the implementation of its resolution 1 (XXIII);

Requests the Executive Secretary, taking into account operative paragraphs 1 to 4 of resolution 1 (XXIII) and all relevant resolutions previously adopted by the Commission, to prepare for the 25th Session of the Commission, after consultation with the Eighteenth Session of the Committee on the Development of Trade, an analytical report on the state of intra-European trade which would enable mutually acceptable recommendations on the removal of economic, administrative and trade-policy obstacles to the development of trade between countries with different economic and social systems to be prepared.

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

Secretary - Dank

SM/69/65

Room 211

#12

May 20, 1969

MAY 26 1969

2 pm

To: Members of the Executive Board

From: The Secretary

Subject: UNCTAD - Report on Second Session of the Special Committee
on Preferences

Attached for the information of the Executive Directors is a report by the Fund Observer on the second session of the Special Committee on Preferences of UNCTAD held in Geneva from April 28 to May 2, 1969.

Att: (1)

Other Distribution:
Department Heads
Division Chiefs

INTERNATIONAL MONETARY FUND
UNCTAD--Second Session of the Special Committee
on Preferences

Report by Fund Observer

May 20, 1969

The Special Committee on Preferences held its second session in Geneva from April 28 to May 2, with 79 members of UNCTAD participating.^{1/} It heard a report by prospective preference-giving countries, all members of Group B, on the progress achieved since its first session and considered the procedures for the detailed intensive consultations between developed and developing countries to be held at its third session in July and thereafter. The Special Committee is to finalize its report for submission to the ninth session of the Trade and Development Board scheduled for late August. The Fund observer was Mr. Pierre Simonet from the Geneva office.

1. Interim progress report

At the first session of the Committee, the spokesman of Group B had announced the agreement reached in the OECD that by March 1, 1969 each prospective preference-giving country should be prepared to table two lists of products. The lists were to be accompanied by a clear statement of all the assumptions, qualifications, and conditions on which the granting of preferences could be considered, and on the basis of which the lists had been prepared.

At the present session, the spokesman for Group B explained that the task had proven to be difficult and delicate, in spite of its nature as a first approximation, and reported that most prospective preference-giving countries had been able to deliver their communications to the OECD by the target date,^{2/} or within a few days of it. In the ensuing discussion the representatives of the EEC, the Nordic countries, Japan, New Zealand, Switzerland, and the United Kingdom, whose countries had already submitted their lists to the OECD, pointed out the preliminary nature of their offers and stated that much remained to be done, first among giving countries and

^{1/} The first session was held in Geneva from November 29 to December 6, 1968. See SM/69/1--UNCTAD--First Session of the Special Committee on Preferences.

^{2/} See Appendix I for the full statement by the representative of Norway.

subsequently in consultations with the developing countries, to set up a detailed scheme of preferences. The spokesman for Nordic countries reiterated the full support of his group for the establishment of a generalized scheme of preferences and pointed out that it was a sine qua non that the scheme should give developing countries considerable advantages by way of substantially expanding their export opportunities. The representative of the United Kingdom indicated that it was his Government's objective to achieve the greatest possible exporting advantages for all developing countries but that it would not be able to do so without regard to the efforts made by other developed countries. This preoccupation would ensure an effective distribution of efforts and was shared by the other prospective donors. Furthermore, his Government intended to take full account of the advantages that Commonwealth developing countries and territories, which now enjoyed free entry into the United Kingdom market for the majority of their exports, would obtain in other markets.

The representatives of Austria and Canada stated that their authorities were continuing intensive work and expected to deposit their submission with the OECD in the near future.

The representative of the United States indicated that, although his Government's studies of the preferences issue had not been concluded, the President had authorized the preparation of illustrative lists for submission to the OECD in Paris. He was, however, unable to say now when the preparation of these lists would be completed and he indicated that his Government wished to make clear that no final decision had been taken regarding his country's participation in a temporary generalized system of preferences. The examination of this matter was continuing and would, of course, include analyses of the exchanges taking place in the OECD, and it was to contribute to the usefulness of these exchanges that his Government had decided to submit its lists. There would also have to be continuing consultation with Congress, since his country's eventual participation would require legislative action.

Representatives of developing countries expressed their disappointment over the delay in the presentation of lists by some prospective preference-giving countries. They noted that the concept of burden-sharing among prospective donors was impeding progress within the OECD since their work could not start effectively until all the developed market economy countries had submitted their proposals. They acknowledged with satisfaction the statement made by the representatives of several developed countries that there was no slackening of the political will to work out a meaningful system of generalized, nonreciprocal and nondiscriminatory preferences in favor of developing countries. They recalled that resolution 21(II), unanimously adopted at New Delhi, had established the Special Committee on Preferences with the aim to settle the details of the arrangements in the course of 1969 and to have the scheme operative early in 1970 and they reiterated their firm hope that developed countries would be able to adhere to the agreed timetable.

2. Procedure for detailed intensive consultations

According to the conclusion reached at its first session, one of the tasks before the Committee was to reach "agreement on the mechanics for handling the detailed intensive consultations with the developing countries at the third session." These mechanics would include the establishment of any necessary working groups to deal with relevant aspects of the scheme.

The spokesman for the developed market economy countries indicated that the present situation as regards the preparation for the establishment of a general scheme of preferences was essentially similar to that during the first session of the Committee in December 1968. The various subjects which the working groups would deal with would depend upon the documentation which the developed market economy countries would submit and it was impossible to decide on the establishment of working groups in the absence of this documentation.

Following discussions in an informal contact group established by the Chairman, the Committee agreed^{1/} to establish a working group to initiate consultations on the technical aspects of the rules of origin and decided to entrust the Secretary-General of UNCTAD with the task of suggesting further procedural arrangements to facilitate the proceedings of the third session. The following are the main areas on which detailed intensive consultations appeared to be necessary: product coverage and extent of the preferences, safeguard mechanisms, duration of the scheme, special measures for the least advanced countries, existing and reverse preferences, institutional arrangements, and measures to be taken by socialist countries of Eastern Europe.

^{1/} See Appendix II for the full text of the conclusions adopted by the Committee.

TRADE AND DEVELOPMENT BOARD
Special Committee on Preferences
Second Session
Geneva, 28 April 1969

28 April 1969
Original: ENGLISH

Statement by the representative of Norway on behalf of
the developed market economy countries members of the
Special Committee on Preferences at the opening meeting
of its second session held on 28 April 1969

1. At the first session of the Special Committee on Preferences, last December, it was agreed that Member countries of Group B would present another interim report to the second session, explaining the progress they have made in elaborating their proposals. It is that report which I shall now attempt to give the Committee, in the name of the prospective preference giving countries of Group B.
2. In their report to the Committee in December, Member countries of Group B stated that they were doing their best to follow up Resolution 21(II) adopted by the New Delhi Conference. During the last few months we have continued our intensive consideration of the possible elements of a system of preferences which would be mutually acceptable and which would offer real opportunities for the expansion of the exports of developing countries into the markets of developed countries. This work has been and is going forward mainly on the national level and also in the framework of the coordinating meetings in the OECD.
3. As we indicated to the first session of the Committee, we had agreed in the OECD last autumn to adopt a pragmatic approach, in accordance with which each prospective preference-giving country would prepare--if possible by 1 March 1969--two illustrative lists of products: a negative list covering chapters 25-99 of the Brussels nomenclature and a positive list covering chapters 1-24 of the nomenclature. The lists were to be accompanied by a clear statement of all the assumptions, qualifications, and conditions on which the granting of preferences could be considered, and on the basis of which the lists had been prepared. I should recall also that one prospective donor country, a non-member of OECD but associated with the work, explained to the Committee's first Session that it was considering a positive offer, and that the completion of such a list would be linked to the target date proposed in OECD.

4. This first attempt at adopting a concrete approach to the problems and their solutions occasioned intensive work in the capitals of all the countries involved. The task frequently showed itself to be difficult and delicate, in spite of its nature as a first approximation. However, real progress has been made and most of our Member countries were able to deliver their communications to the OECD by the target date, or within a few days of it. In some countries the work of preparation is still going on. When all the submissions have been exchanged within the OECD Ad Hoc Group, they will serve, as we have indicated, as the basis for detailed exchanges of views within the OECD, during which the various countries may, if they think it necessary, modify their lists and assumptions.

5. While this work was being carried out in the capitals, we have continued with our common deliberations at OECD on different important aspects of the preference system as well in the Trade Committee as in other subordinated bodies. In particular, a Group of Experts on Rules of Origin has initiated a detailed examination of the problems with respect to rules of origin in the context of a generalized system of preferences.

Conclusions of the Special Committee on Preferences
in its Second Session

1. The Committee recalled paragraph 47 of the report on its first session.
2. The Committee agreed that in view of the special character of the subject and of the documentation available, there would be advantage in now establishing a Working Group to initiate consultations on the technical aspects of the rules of origin. This Working Group should be convened by the Secretary-General of UNCTAD at an early date in consultation with the various groups.
3. The Committee further agreed that there are also other aspects of the scheme on which detailed intensive consultations would be necessary in the Committee in its third session or in working groups to facilitate the work of the third session. It identified tentatively the following main areas for such consultations:
 - product coverage and extent of the preferences
 - safeguard mechanisms
 - duration of the scheme
 - special measures for the least advanced countries
 - existing and reverse preferences
 - institutional arrangements
 - measures to be taken by Socialist Countries of Eastern Europe in light of resolution 15(II).
4. It was generally agreed that arrangements will have to be made to deal with the above-mentioned aspects and in that connexion the proposals set forth in paragraph II of the secretariat document TD/B/AC.5/11 provided useful guidelines. It was further agreed that in light of the progress and outcome of work in the OECD, it might be necessary to have a closer look at the allocation of subjects by headings and subheadings to working groups to be set up.
5. Due to the absence of substantive documentation, in particular from the prospective preference-giving countries, these areas do not lend themselves to the process of consultations at the present moment. In view of the pressure of time and of the timetable envisaged it was considered desirable that as much work as possible should be done to facilitate the proceedings of the third session when it assembles. For this purpose the Committee agreed to invite the Secretary-General of UNCTAD to consult informally with the Chairman and the Bureau of the Committee and with representatives of the Member governments prior to the third session. These consultations would be aimed at facilitating decisions on procedural arrangements,

in the light of paragraph 3 above, for the conduct of the detail intensive consultations at the third session of the Committee. They would also deal with substantive aspects listed above so far as the necessary documentation is available.

6. It was widely recognized that it might not be possible for such consultations and such working groups as had been established to complete their work within the time schedule of the Committee's third session (30 June-18 July, 1969) and it might be necessary for them to continue even after that session. It was agreed that in such an eventuality, the Committee at its third session would have to make appropriate arrangements for finalizing its report for submission to the ninth session of the Trade and Development Board.

SM/66/55

May 2, 1966

To: Members of the Executive Board
From: The Acting Secretary
Subject: UNTAD Committee on Invisibles and Financing Related to Trade
- Report on Resumed First Session

The attached report on the resumed first session of the Committee on Invisibles and Financing Related to Trade, Geneva, April 13 to April 20, 1966, is circulated for the information of the Executive Directors.

Att: (1)

Other Distribution:
Department Heads
Division Chiefs

INTERNATIONAL MONETARY FUND

UNTAD Committee on Invisibles and Financing
Related to Trade: Resumed First Session

Report by Research and Statistics Department
and Exchange and Trade Relations Department

May 2, 1966

The Committee met in resumed session in Geneva, from April 13 to April 20, 1966, for the purpose of considering the study on Supplementary Financial Measures which had been prepared by the Staff of the International Bank for Reconstruction and Development in response to Recommendation A-IV-18, Part A, adopted by the UNCTAD in June 1964. The Bank study was distributed to the Board on December 9, 1965, and the UNCTAD recommendation is set forth at Annex A of this Report.

The Fund was represented by Messrs. Edgar Jones and Marcus Fleming.

The essential elements in the proposal contained in the Bank study are that an international agency should be endowed with funds for the purpose of enabling it to provide residual financing to compensate shortfalls in the exports of developing countries below reasonable expectations as determined by 4 or 5 year projections agreed between the country and the Agency, such compensation to be paid only if the country adheres to development programs and policies similarly agreed.

The proposal was well received. Developing countries generally supported it, subject to reservations regarding many of the aspects of the scheme, and in particular regarding the degree of conditionality. Industrial countries were more divided, some being strongly in support, others more inclined to reserve their positions pending further study of the scheme.

The Committee concluded by passing the resolution contained at Annex B to this Report. This resolution, noting (a) the lack in the existing international financial machinery of a mechanism to deal with problems arising from such adverse movements in exports proceeds as cannot be dealt with by short-term balance of payments support, (b) the desirability of introducing appropriate measures, and (c) the considerable support given in the Committee to the Bank study, decided to set up a small group of expert government representatives of 13 to 15 members to study and report on the Bank staff scheme.^{1/} Staff representatives of the Bank and

^{1/} Thirteen countries were nominated to provide representatives for the intergovernmental group: France, Germany, Japan, Sweden, United Kingdom, United States, Argentina, Brazil, Ceylon, Canada, India, United Arab Republic, Yugoslavia. Two additional places were left open for countries from Eastern Europe, should they wish to join.

the Fund were invited to assist in the work of the Group, which is to report for consideration by the Committee at its second session in November 1966.

It is clear from a perusal of the Bank staff scheme and from the terms of reference of the intergovernmental group (set forth at Annex C) that the proposals for Supplementary Financing now under discussion may have profound implications not only for the Fund's compensatory financing facility but for the general financial operations and other activities of the Fund. It is intended to issue a staff paper to the Board exploring some of the issues involved.

As part of the background to the Committee's discussion of Supplementary Financing, Mr. Marcus Fleming, on behalf of the Fund staff, made the statement set forth at Annex D to this Report about the Fund's Compensatory Financing Facility.

United Nations Conference on Trade and Development
Final Act and Report

Annex A.IV.18

Supplementary Financial Measures

A

The Conference,

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

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

I. Objective

1. The new scheme should aim to deal with problems arising from adverse movements in export proceeds which prove to be of a nature or duration which cannot adequately be dealt with by short-term balance-of-payments support. Its purpose should be to provide longer term assistance to developing countries, which would help them to avoid disruption of their development programmes.

II. Principles

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

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

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

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

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

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

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

NOTES

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

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

(i) If, following an IMF drawing in one year under its special compensatory financing facility, exports fall significantly below reasonable expectations in the second or third year.

(ii) If, when the IMF drawings were due to be repaid, exports had not recovered sufficiently for this to be possible without disruption of development.

(iii) If there were a significant shortfall in exports which the IMF adjudged at the outset to be other than of a short-term nature and the IMF had decided that it would be inappropriate for it to provide temporary balance-of-payments support.

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

B

The Conference also recommends that the continuing machinery recommended by this Conference be invited to study and organize further discussion of the following concepts and proposals for financing put forward by the delegations of the developing countries at the Conference:

1. That a fund be set up, financed by contributions from developing countries, as required, and administered by an appropriate agency of the United Nations;

2. That only developing countries should be eligible to draw from the Fund;

3. That disbursements should be in the form of non-reimbursable transfers and/or contingent loans on concessional terms;

4. That the criteria used in deciding upon claims should be as objective as possible and should include the following:

(a) The effect of shortfalls in export earnings and the adverse movements in the terms of trade;

(b) The effect on the country's development programme;

5. That to complement this longer term approach, facilities be provided for interim financing, when warranted, to assist the developing countries concerned while the longer term problem is being assessed.

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

SUPPLEMENTARY FINANCIAL MEASURES

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

The Committee on Invisibles and Financing Related to Trade:

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

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

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

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

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

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

DECIDES for this purpose, subject to the approval of the Board, to establish under Rule 63 of the Rules of Procedure of the Committee a small group of representatives of governments, with the requisite expertise, consisting of 13 to 15 members, to study and report on this matter to the second session of the Committee, with the terms of reference set out in the annex to this resolution;

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

TERMS OF REFERENCE FOR INTERGOVERNMENTAL GROUP

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

- (viii) The comparative effects on economic development of the scheme proposed and of other possible methods which might be employed for the same purpose but with due regard to the primary task laid down in the fifth and sixth paragraphs of the resolutions to which these terms of reference are annexed.
 - (ix) The status, membership and functions of the Agency and its relations with other international bodies, having regard to paragraphs 7 and 8 of Part A of Recommendation A.IV.18.
3. The Group may also put forward suggestions, for further consideration by governments, of ways in which the Scheme might be financed.

Statement by Mr. Marcus Fleming on Compensatory Financing

It may be of some interest to the Committee, as a background to their study of Supplementary Financing, to have a statement from the Fund representative on the present status of the Fund's compensatory financing arrangements.

The provision of financial assistance to tide over temporary balance of payments difficulties arising from export shortfalls has always been regarded as a legitimate use of Fund resources, and where shortfalls are attributable to outside causes and the balance of payments policies of the country concerned are otherwise satisfactory no corrective action need be undertaken as a condition of such use.

In February 1963, the Fund, while continuing to affirm the right of its members to draw for compensatory financing purposes under its ordinary terms and conditions, created a new facility under which countries could draw on special terms for this particular purpose. You are probably familiar with the main outlines of the Fund's compensatory financing scheme so I can be brief in enumerating its main features.

1. It is open to all member countries, but designed in particular for primary producing countries.
2. It is designed to compensate for temporary shortfalls in export receipts, not in export prices or in the terms of trade, or even in the importing power of exports.
3. By temporary shortfalls are meant deviations from a medium-term trend in export receipts.
4. Compensation is paid in the form of a drawing subject to the normal conditions of repayment for Fund drawings, including an outside limit of 3 to 5 years.
5. Compensation is paid to the full extent of the shortfall, subject to the proviso that the total of compensatory drawings outstanding should not normally exceed 25 per cent of quota.
6. Members drawing under the facility do not have to comply with all the conditions that would be appropriate in the case of a non-compensatory drawing. However, they do have to satisfy the Fund that they are encountering payments difficulties, that the shortfall is of a short-term character and is largely attributable to circumstances beyond the member's control, and that the member will cooperate with the Fund in an effort to find solutions for its payments difficulties.

In order to ensure that the compensatory facilities are both effective and additional to ordinary facilities, the Fund has affirmed its readiness not only to waive the limit of 200 per cent of quota on Fund holdings of a member's currency where this is necessary to permit compensatory drawings to be made, but also to waive that limit for ordinary drawings to the extent that compensatory drawings are outstanding.

The use that has been made of the Fund's facility during the first three years of operation has been considerably less than was anticipated when it was set up. Owing mainly to an unexpected upturn in prices of foods and minerals, export earnings from 1963 to 1965 were relatively favorable for many primary exporting countries. In the aggregate, developing countries were even able to set aside part of their earnings during this period towards raising the level of their external reserves. In the event, only three countries, Brazil, Egypt and the Sudan, have thus far found it necessary to draw upon the facility. Though a few more members would have had a prima facie case for using it, shortfalls were in nearly all cases very small and difficulties adequately met without recourse to the Fund for either ordinary or compensatory financing drawings. Those that did use the facility were members highly dependent in their export trade on particular commodities which suffered from severe crop failures, or for which the course of prices was not typical--precisely the sort of situation which the facility was intended to meet.

It would be prudent to assume that these circumstances have now changed. The decline in many commodity prices through 1964 and most of 1965 brought the general level for agricultural exports a substantial part of the way back to those preceding the boom, making it likely that applications to use the facility will be more frequent in future--though as a matter of fact primary exports seem to have turned up again in the last part of 1965 and in 1966.

Though the Fund's Compensatory Facility has been, as yet, so little tested, suggestions for its improvement have not been lacking. Some of these have been incorporated in UNCTAD Recommendation A.IV.17, with which you are already familiar; others have been put forward by Governors at the Fund's Annual Meeting in 1965.

Of the principal suggestions made, two have concerned the manner in which shortfalls are computed, namely, that in determining the export norm from which shortfalls are reckoned more weight should be given to earlier years, and that account should be taken not only of export proceeds but of changes in the terms of trade. Two suggestions have concerned the amount and character of the compensation provided, namely, that it should be limited to 50 per cent rather than 25 per cent of quota, and that the compensatory facility should be so separated from other drawing facilities that its use would not affect policy conditions applied to subsequent non-compensatory drawings. Finally, it has been suggested that ways be explored to secure refinancing of compensatory financing obligations in the event of persistent shortfalls.

All the proposals I have mentioned, and others that have arisen within the Fund itself, are now under active consideration by the Fund Board, on the basis of a staff analysis. It is not possible for me to anticipate here what may be the outcome of these deliberations. There are, however, one or two things which can perhaps be said at this point.

In the first place, the resources of the Fund are intended to provide temporary assistance to meet balance of payments deficits which are expected, with the aid of suitable policies, to last for only a short time, and indeed to be succeeded within a few years time by surpluses out of which the assistance can be repaid. In other words, the Fund is essentially a provider of short- to medium-term balance of payments financing.

In accordance with this general principle governing all Fund drawings, the compensatory facility is specifically designed to meet export shortfalls of a short-term character. Now, the way in which we identify shortfalls of a short-term character is by measuring the shortfall relative to a medium-term norm, by which we mean an average of 5 years' exports centered on the shortfall year. In principle, therefore, we give the same weight to each of the two post-shortfall years as the shortfall year itself, and each of the two pre-shortfall years. In practice, we necessarily give more weight to pre-shortfall than to post-shortfall years for the simple reason that we know what the exports were in the shortfall and pre-shortfall years but can only forecast or guess at what they will be in post-shortfall years. If we were to give still more weight than we do to pre-shortfall years, we would find ourselves compensating export declines rather than shortfalls from trend. We could no longer say that the short-term character of the shortfall was ensured--insofar as such things can be ensured--by the method in which the shortfall itself was measured. We should, therefore, be obliged, in addition to estimating the shortfall, to make a separate determination as to its probable duration. In this way, the relative weight given to prospective as compared with past exports, though diminished in the definition of the norm, would return again in another form. In any event, it would seem illogical to give too much of a backward-looking reference to a scheme that is intended to foster continuity and planning of economic development.

In the actual estimation of the export norm we rely partly on an automatic statistical formula, and partly on a so-called qualitative estimate. The statistical formula is based on the shortfall year and two previous years alone, weighted in the manner that in the past has given the best prediction of the norm as defined; the qualitative estimate includes actual data for these years, but in addition explicit forecasts for the two post-shortfall years. It has been our experience that the qualitative procedure provides a slightly more accurate estimate of the norm than does the automatic formula, and we shall probably be laying somewhat more weight on it in future.

While I am on the question of defining what is to be compensated, I might say something about the question of taking account explicitly of changes in the terms of trade. We have always taken the view in Fund papers on compensatory financing that it is better to compensate fluctuations in export proceeds, thus giving equal weight to prices and to volumes, than to pick out price fluctuations for special compensation. On the other hand, we have admitted that ideally there is a good economic case for compensating not the money value but the real value or importing power of exports. However, there are a number of severe practical problems arising out of the rather poor quality and late availability of import price indices in many of the less developed countries, which would, at the very least, occasion considerable delays and uncertainties in the assessment of norms and shortfalls. One should also bear in mind that substantial fluctuations in import prices occur only in a minority of cases and that these can be taken care of by the Fund's ordinary drawing facilities.

I turn now to the three matters concerning compensatory financing that the UNCTAD recommended for study to members. One was that compensatory credits be placed outside the structure of Fund tranches, so that compensatory drawings should not prejudice a member's ability to make ordinary drawings. Of course, compensatory drawings are already outside the structure of Fund tranches in the sense that ordinary tranche policies do not apply to them, while the member's ability to make an ordinary drawing is already protected from impairment by the Fund's expressed willingness to waive the limit on total drawings to the extent of any compensatory drawings. Admittedly, however, the increase in Fund holdings of a member's currency resulting from a compensatory drawing may cause the member's next ordinary drawing to take place in a higher credit tranche, where it is subject to a closer scrutiny of the member's corrective policies than if the compensatory drawing had never taken place. It is this feature of the present scheme that the UNCTAD resolution sought to remove.

The UNCTAD Resolution suggests an expansion of drawing rights under the facility from 25 per cent to 50 per cent of a member country's quota. There are several divergent considerations which have to be taken into account in studying an extension of this nature. Above all, it should be borne in mind that whatever limit may be set to the compensatory facility as such does not necessarily limit the total amount of assistance on which countries may draw as the result of payments difficulties attributable to export changes, since drawings under the facility can be supplemented by drawings under ordinary facilities in shortfall circumstances. Calculations indicate that, had the scheme been in operation over the period 1951 to 1964, an extension of the limit from 25 per cent to 50 per cent would have significantly improved its efficacy. Against this would have had to be set the cost of extension, that is, the effect on the Fund's own liquidity, as well as the consideration that it would involve a not inconsiderable addition to liquidity provided liberally, and might reduce recourse to facilities of a more conditional character.

As regards the third of the UNCTAD recommendations, relating to the possible refinancing of compensatory financing obligations in the event of a persistent shortfall in export receipts, it is perhaps not always realized that this is possible to quite a considerable extent under the existing system. If a country has to repay a past compensatory drawing at a time when export shortfalls, as defined by the Fund, continue to exist, the repayment will restore pro tanto the compensatory facility and make it possible even for a country that was previously at its limit to make a new compensatory drawing, which will have the effect of a refinancing.

I suspect, however, that what the authors of the resolution had in mind was not the persistence of shortfalls on the Fund definition but the persistence of exports at the low level to which they had fallen at the time of the original shortfall. This case would not be covered by the compensatory facility as such. In this connection, I am bound to repeat what I said a few minutes ago, that the Fund is a provider of short- to medium-term balance of payments financing, so that any system of repurchase it may adopt must conform to this principle.

It was suggested in UNCTAD Resolution A.IV.18, as a way of resolving this dilemma, that if drawings on the Fund's compensatory facility should fall due for repayment at a time when exports had not recovered sufficiently, this might be an occasion for using the proposed supplementary financing facility.

As I made clear from the start, the various matters I have been discussing with respect to the reform of the Fund's compensatory financing facility are at present under discussion.

I hope, however, that in the not too distant future the Fund may be in a position to record further progress on this important matter.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

To: Mr. *Friedman*

~~Department~~

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DF
Secretary
Donald D. Fowler
Deputy Secretary

6/20
cc: Messrs. Kamarck, Sarma, Frank,
Macone, Sundrum, Jalan - June 21/67

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR
AGENDA

Secretary - Bank

SM/67/76

Room 211

#12

June 16, 1967

To: Members of the Executive Board
From: The Acting Secretary
Subject: Compensatory Financing: Double Compensation

The attached memorandum prepared by the staff in response to the Executive Board's request at Meeting 67/19, March 17, 1967, will be brought to the agenda for discussion on a date to be announced.

Att: (1)

Other Distribution:
Department Heads
Division Chiefs

INTERNATIONAL MONETARY FUND

Compensatory Financing: Double Compensation

Prepared by the Research and Statistics Department
in consultation with the Legal Department, the Exchange
and Trade Relations Departments, and the Area Departments

June 15, 1967

The Problem of Double Compensation

At the meeting of the Executive Board at which the application of Colombia for a compensatory financing drawing was considered (Executive Board Minutes 67/19), the staff undertook to present a paper to the Board setting forth some of the problems of double compensation that arise in the operation of the compensatory financing facility.

As was explained in the Second Report on Compensatory Financing of Export Fluctuations (p. 15), these problems arise primarily when one or several "ordinary" drawings are made and/or a stand-by arrangement is approved after the beginning of the shortfall period for which a drawing under paragraph (5) of the Compensatory Financing Decision (i.e., a drawing under the compensatory facility) is requested, and before the time of the request for the paragraph (5) drawing.

As was indicated in the brief treatment of the problem given in the Second Report, two possible approaches to the problem suggest themselves, which might be termed the *ex ante* and the *ex post* approaches, respectively.

The *Ex Ante* Approach

The *ex ante* approach would be for the Fund, at the time of an outright drawing or stand-by arrangement, to specify the manner in which the compensatory element in such outright drawing or in any drawings under such stand-by arrangement would be taken into account, for the purposes of allowing for double compensation, in the event of any paragraph (5) drawing occurring within the relevant period. In the Second Report on Compensatory Financing it was suggested that such a statement would indicate the amount of the drawing or stand-by in question that would be regarded as granted with respect to an export shortfall, and the period of that shortfall. If this were done, the amount of double compensation involved would still have to be calculated by some such

prorating procedure as is discussed below in connection with the *ex post* approach. For example, if it were stated at the time of a stand-by arranged on 1st September 1967 that up to \$10 millions of drawings under this stand-by would be deemed to be in compensation of a (largely anticipated) shortfall over the period from end-June 1967 to end-June 1968, then if a paragraph (5) drawing were requested with respect to a shortfall year ending March 1968, and \$10 million had already been drawn under the stand-by, an amount of \$7.5 million, corresponding to the compensatory element in the stand-by for the period from end-June 1967 to end-March 1968 would be deducted from the estimated shortfall, and only the remainder would be compensated in the paragraph (5) drawing.

On the single occasion in which the *ex ante* approach to the avoidance of double compensation has thus far been pursued, however, viz., the Guatemalan stand-by arrangement of 31st March 1967, the procedure adopted did not correspond to that described above in all respects, notably as regards the imputation of the compensatory element in the ordinary drawing or stand-by to a specified period. In the staff analysis of the request for this arrangement (EBS/67/65), the following passage appeared: "As indicated above, the requested stand-by arrangement is to a considerable extent motivated by the expected sharp decline in export receipts. Accordingly, for the purpose of avoiding double compensation, it is understood that in the event of any request for a drawing under the Fund's compensatory financing facility (paragraph (5) of Executive Board Decision No. 1477-(63/8) as amended) with respect to a shortfall in a period ending within the stand-by period, any drawings under the present stand-by prior to that request, up to but not exceeding an amount of \$7 million, will be deemed to have been made in compensation for that shortfall. In the event of any request for a compensatory drawing with respect to a period ending after the stand-by period, the normal procedure for estimating double compensation will apply." In this case, it will be seen, no attempt was made to determine in advance the period of the shortfall with respect to which the compensatory element in the stand-by is deemed to have arisen. This has the advantage, as compared with the technique outlined in the Second Report on Compensatory Financing, of obviating the need for prorating the compensatory element imputed to the "ordinary" drawing in the manner described on pp. 1-2 above.

Whatever precise method is adopted for determining the compensatory amount to be attributed to the stand-by or an outright drawing, the country will retain the drawing or right to draw even if the compensatory amount turns out to exceed the eventual shortfall, while in the opposite case the country can always supplement the "ordinary" drawing or stand-by with a paragraph (5) drawing. It therefore seems necessary to ensure that the amount of the "ordinary" drawing or stand-by deemed to be compensatory should always be estimated very much on the conservative side. This would presumably have implications for the total amount of the stand-by granted. It might even be provided in certain circumstances that none of the drawings under a particular stand-by (or no part of a particular outright drawing) should be regarded as compensatory.

In addition to these cases in which a zero compensatory component is specified under the *ex ante* approach, there will be cases in which drawings are clearly granted for a non-compensatory purpose, e.g., drawings granted to mitigate the effects on reserves of making gold subscriptions at the time of quota increases. In these cases also, no problem of double compensation will be deemed to exist in the event of a later paragraph (5) drawing.

A difficulty that arises in applying double compensation procedures to stand-by drawings, whether under the *ex ante* approach described above or under the *ex post* approach described below, is that any allowance for double compensation can apply only to such drawings as have been already made available to the country before the request for a paragraph (5) drawing. It would be inequitable as between countries entering into stand-by arrangements and other members to take account of drawing facilities under stand-by that had not yet been fully utilized by the country and (the conditions of the stand-by not being fulfilled) might subsequently be unavailable.

The *ex ante* approach to the avoidance of double compensation is at present in an experimental stage, and it would be premature to specify now the form it should take in future cases. It is of the essence of this approach that Fund and member should reach a common understanding in advance as to the manner in which double compensation would be calculated in connection with any future paragraph (5) drawing; there is room for some variation from case to case as to the precise understanding arrived at.

The Ex Post Approach

A. Procedures initially applied

The *ex post* approach to dealing with the double compensation problem is that which is applied to the calculation of the compensable shortfall at the time of a paragraph (5) drawing when, as is usually the case, no provision for dealing with the compensable elements in previous "ordinary" drawings has been specified at the time of these drawings or at the time of the stand-by under which the drawings took place, and the drawings or the stand-by arrangement have not been granted explicitly for a non-compensatory purpose. Here, as was indicated in page 15 of the Second Report on Compensatory Financing, it is obviously necessary to have "rules" or procedures which are the same for all countries though they may be altered from time to time in the light of experience.

Such procedures have already been applied to the calculation of compensable shortfalls in the cases of Ghana (EBS/66/279), Ceylon (EBS/67/50), and Colombia (EBS/67/56). In the first two of these cases the procedure adopted, roughly corresponding to that sketched out at pp. 11 and 12 of SM/65/101,^{1/} was as follows:

^{1/} "The Fund's Compensatory Financing Facility Reconsidered," SM/65/101, December 10, 1965.

For each "ordinary" (i.e., non-paragraph (5)) drawing that has taken place in the course of the twelve-month period with respect to which the paragraph (5) drawing is requested, a calculation is made, normally by means of the general statistical formula, to see whether any export shortfall had occurred during the preceding twelve months, and any shortfall that may have occurred is prorated to arrive at an amount to be attributed to the period with respect to which the paragraph (5) request is made. For example, in the case of Ghana, the twelve-month period with respect to which the paragraph (5) drawing was requested was that from September 1965 to August 1966, inclusive. The stand-by drawing of June 7, 1966, was associated with the shortfall calculated over the twelve months ending in May 1966. This shortfall (of \$25.7 million) was then prorated to arrive at the portion (viz., \$19.3 million) attributable to the period from September 1965 to May 1966 inclusive.

As regards the first "ordinary" drawing occurring in the twelve-month period with respect to which the paragraph (5) drawing is requested, the procedure is to regard half of the prorated shortfall or the amount of the "ordinary" drawing, whichever is the less, as the amount deemed to be already compensated by the "ordinary" drawing in question and, therefore, to be deductible from the shortfall for the twelve-month period for which the paragraph (5) drawing is requested. Thus, in the case of the Ghanaian request, \$9.65 million or half of the prorated shortfall of \$19.3 million was regarded as "already compensated" by the stand-by drawing of June 7, 1966.^{1/}

In the event of a second "ordinary" drawing occurring within the twelve months with respect to which the paragraph (5) drawing is requested, the same procedure is gone through except that the amount assumed to be "already compensated" by the first "ordinary" drawing is deducted from the prorated shortfall associated with the second drawing before the latter is halved to arrive at the amount deemed to be compensated by the second "ordinary" drawing. Thus, in the Ghana case, the amount of \$9.65 million compensated by the drawing of June 7 was subtracted from the prorated shortfall of \$15.12 million associated with the drawing of August 12, and the difference halved to arrive at an amount of \$2.74 million deemed to be compensated by the latter drawing.^{2/} An analogous procedure is followed for subsequent "ordinary" drawings.

B. Procedures introduced for Colombian drawing

On the occasion of the Colombian drawing under paragraph (5), (EBS/67/56), two changes were introduced into the procedure for estimating double compensation to meet some of the defects that were believed to exist in the procedure just described.

^{1/} Ghana--Use of the Fund's Resources," EBS/66/279, p. 5, Table 2.

^{2/} *Op. cit.*

(1) Since a basic assumption of that procedure is that each "ordinary" drawing is potentially compensatory for 50 per cent of any shortfall arising over the preceding 12 months, it seems more logical to take 50 per cent of that shortfall or the amount of the drawing, whichever is the less, and prorate that amount over twelve months to discover how much should be imputed to the period with respect to which the paragraph (5) drawing is requested, than to prorate the shortfall only and consider half of the portion falling in the paragraph (5) period or the whole amount of the drawing, whichever is the less, as compensatory within the paragraph (5) period. Such a change would also bring the procedure into better accord with the way in which it was set forth on pages 11 and 12 of SM/65/101.

(2) The practice of calculating shortfalls associated with "ordinary" drawings by the statistical formula alone (see p. 4 above) was adopted because of difficulties associated with retrospective forecasting. Assuming that no estimate of the shortfall over the preceding twelve months had been made at the time of such a drawing by the method involving export forecasts for the two years following the drawing, it would be necessary, if the forecast method were to be followed, to attempt at the time of the request for the paragraph (5) drawing to estimate what the export forecast would have been at the time of the "ordinary" drawing. Such an attempt was considered inadvisable.

However, the practice of using the statistical formula to estimate the shortfalls to be associated with the "ordinary" drawings (i.e., the shortfalls for the twelve-month period preceding these drawings) was found to lead to anomolous results when taken in conjunction with the estimation of shortfall by the forecast method for the paragraph (5) drawing itself. Thus, in the Ghana case, the shortfall associated with the drawing of August 12 was estimated for the twelve-month period ending in July 1966 at \$16.5 million, while the shortfall associated with the paragraph (5) request was estimated for the twelve-month period ending in August 1966 at \$39.0 million. This was a very large difference in shortfall, considering that the shortfall periods had an eleven month overlap.

Where the "ordinary" drawing has been made shortly after the end of the twelve-month period with respect to which the paragraph (5) drawing is requested, it is possible that the shortfall periods associated with the two drawings might coincide. In this case it is possible to use the same estimate of shortfall for the two purposes and it would be absurd to use different estimates. It is for this reason that in the case of the stand-by drawing of December 29 preceding Ceylon's request for a paragraph (5) drawing, the estimate of shortfall associated with that drawing was the same as that used for the paragraph (5) drawing, both being made for the twelve-month period ending November 1966, as determined by the export forecast method.

Where, however, as is generally the case, the shortfall period associated with the "ordinary" drawing ends at an earlier date than that associated with the paragraph (5) request, the solution adopted cannot be so

simple. A generally applicable method for calculating the shortfall associated with the "ordinary" drawing was suggested, and applied, in the Colombian case. The suggestion was that the two-year period following the "ordinary" drawing should be divided into two sub-periods:

(a) as regards the sub-period which elapsed between the "ordinary" drawing and the end of the twelve-month period with respect to which the paragraph (5) drawing was requested (period 1), exports would be assumed to take place at the annual rate implied in the statistical formula estimate for the two years following the "ordinary" drawing;^{1/} and

(b) as regards the remainder of the two years following the "ordinary" drawing (sub-period 2), exports would be assumed to take place at the same annual rate as was estimated for the two post-shortfall years in connection with the paragraph (5) request.

In other words, in computing the shortfall associated with the "ordinary" drawing, the implied projection of exports at the time of the "ordinary" drawing and the export estimate for the two post-shortfall years at the time of the paragraph (5) request would be combined in a weighted average using weights proportional to the lengths of the respective sub-periods (1) and (2).

For example, in the case of Colombia's paragraph (5) request, the period elapsing between the end of the shortfall year associated with the stand-by drawing of September 20, 1966, and the end of the shortfall year with respect to which the paragraph (5) request was made was five months (sub-period 1), which constituted 20.8 per cent of the two-year period. The remainder of the two-year period (sub-period 2) therefore constituted 19 months or 79.2 per cent of the two-year period. The forecast rate of exports implied in the statistical formula for the two years following the stand-by drawing was \$523.3 million per annum and the rate actually forecast in connection with the paragraph (5) request was \$496.1 million per annum. The average of these two figures using the respective weights given above was \$501.8 million and this rate of exports was imputed to the whole of the two years following the stand-by drawing.^{2/}

This formula has the consequence that the more closely the shortfall year associated with the "ordinary" drawing coincides with the shortfall year associated with the paragraph (5) drawing, the more closely the trend value used for measuring the "ordinary" drawing shortfall is likely to approximate to the norm for measuring the paragraph (5) drawing shortfall.

^{1/} The statistical formula measures the export norm for year t as a weighted average of exports for years $t-2$, $t-1$, and t . However, it purports to estimate an unweighted average of exports for years $t-2$, $t-1$, t , $t+1$, and $t+2$. Therefore it implies a forecast of exports for years $t+1$ and $t+2$.

^{2/} "Colombia--Use of the Fund's Resources," EBS/67/56, page 4, Table 2.

C. Some outstanding problems

Not all of the difficulties involved in the present method of applying the *ex post* procedure for dealing with double compensation have been resolved by the changes introduced at the time of the Colombian request.

(1) Where an "ordinary" drawing takes place more than a month after the end of the twelve-month period with respect to which a paragraph (5) drawing is requested, but before the request is dealt with by the Executive Board, it is impossible to determine the shortfall associated with the "ordinary" drawing, and the amount of double compensation involved, by the existing procedure. This is chiefly because (a) the actual exports for the twelve-month period preceding the "ordinary" drawing cannot be established, and (b) there is a problem of estimating the exports for the two years following the "ordinary" drawing. This difficulty arose in the case of Ghana where a stand-by drawing took place on November 25, 1966, while the twelve-month period with respect to which the paragraph (5) drawing was requested ended in August 1966.^{1/} In that particular case the problem could be sidestepped, since even if the whole of the drawing in question had been included in the amount of the shortfall for the period ending in August 1966 that was deemed to have been "already compensated," the residual would still have exceeded the maximum of 25 per cent of quota for the amount of paragraph (5) drawings outstanding in any given year.

As a provisional solution to this problem it is proposed to treat all "ordinary" drawings occurring between the end of the twelve-month period with respect to which a paragraph (5) drawing is requested and the date at which the Board acts on this request as if they had occurred at the end of the twelve-month period in question. This will mean that the shortfall associated with the "ordinary" drawing and the shortfall associated with the paragraph (5) request will be deemed to be the same, though of course the amount deemed to be compensated by the "ordinary" drawing will not in any case exceed half of that shortfall.

(2) A more difficult problem arises with respect to the technique to be adopted in cases where a sequence of "ordinary" drawings takes place in the course of the twelve-month period with respect to which the paragraph (5) drawing is requested. The present technique (as described on p. 4 above) may have results that are inconsistent with the original intention of the double compensation procedure, that no more than half of the shortfalls associated with previous "ordinary" drawings should be deemed to have been compensated by these drawings.

The point can be illustrated in the two hypothetical cases set forth below, in both of which it is assumed (a) that the twelve-month period with respect to which the paragraph (5) drawing is requested ends in December, (b) that the shortfall remains constant (at a level of 200 per

^{1/} "Ghana--Use of the Fund's Resources," EBS/66/279, p. 4.

annum) throughout this twelve-month period, and (c) that the "ordinary" drawings are sufficiently large not to limit the amounts that would otherwise be imputed to export compensation.^{1/} Case (1) assumes two "ordinary" drawings at six-monthly intervals, case (2) twelve "ordinary" drawings at monthly intervals.

Case 1

(Shortfall year of Paragraph (5) drawing ends in December)

<u>Date of "Ordinary" Drawing</u>	<u>Shortfall</u>	<u>Prorated Shortfall</u>	<u>Amount of Drawing deemed Compensatory</u>
end June	200	100	50
end December	200	200	<u>75</u>
			125

In the light of assumption (c) above, it is not necessary to specify the amounts of the two drawings. The June drawing must be not less than 100 which gives a prorated figure of 50. The December drawing must be not less than 75.

In the case of the June drawing, an amount of the drawing equal to half of the prorated shortfall is regarded as compensatory. In the case of the December drawing, the amount "previously compensated" (i.e., 50) is subtracted from the prorated portion of the shortfall associated with the December drawing (which is in this case equal to the whole of that shortfall) and an amount of the drawing equal to half of the residuum is deemed compensatory. The total amount deemed to be compensated by the two drawings is thus 125, which is more than half of the constant annual rate of shortfall throughout the year.

^{1/} As indicated at p. 5 above, the amount of any given "ordinary" drawing deemed to be compensatory can never exceed the (prorated) amount of that drawing.

Case 2

(Shortfall year of Paragraph (5) drawing ends in December)

<u>Date of</u> <u>"Ordinary"</u> <u>Drawing</u>	<u>Shortfall</u>	<u>Prorated Shortfall</u>	<u>Amount of Draw-</u> <u>ing Deemed</u> <u>Compensatory</u>	<u>Cumulative</u> <u>Amount Deemed</u> <u>Compensatory</u>
end January	200	17	8.5	
end February	200	33	12.0	20.5
end March	200	50	15.0	35.5
end April	200	67	16.0	51.5
end May	200	83	16.0	67.5
end June	200	100	16.0	83.5
end July	200	117	17.0	100.5
end August	200	133	16.0	116.5
end September	200	150	17.0	133.5
end October	200	167	17.0	150.5
end November	200	183	16.0	166.5
end December	200	200	17.0	183.5

In this table, the amount of each drawing deemed compensatory is arrived at by subtracting the cumulative amount of previous "ordinary" drawings deemed compensatory. It will be seen that in Case 2, the total amount of "previous compensation" is as much as 183.5, not far short of the constant annual rate of shortfall, and far in excess of half of that rate.

In order to prevent an excessive cumulation of amounts deemed to be compensated by a sequence of "ordinary" drawings, it is proposed to amend the procedure in the following way. The compensatory element in any "ordinary" drawing would no longer be estimated at (a) half of the excess (if any) of the prorated shortfall associated with the drawing over the cumulative amounts deemed to have been compensated by previous "ordinary" drawings, or (b) the prorated amount of the drawing in question, whichever is the less. Instead it would be estimated at (a) the excess (if any) of half the prorated shortfall associated with the drawing over the cumulative amounts deemed to have been compensated by previous "ordinary" drawings, or (b) the prorated amount of the drawing in question, whichever is the less. Where no excess appeared under (a), the amount of the drawing deemed to be compensatory would be zero.

This would work as follows in the two hypothetical cases previously examined.

Case 1

(Shortfall year of Paragraph (5) drawing ends in December)

<u>Date of "Ordinary" Drawing</u>	<u>Shortfall</u>	<u>Prorated Shortfall</u>	<u>Amount of Drawing deemed Compensatory</u>
end June	200	100	50
end December	200	200	<u>50</u>
			100

Case 2

(Shortfall year of Paragraph (5) drawing ends in December)

<u>Date of "Ordinary" Drawing</u>	<u>Shortfall</u>	<u>Prorated Shortfall</u>	<u>Amount of Drawing Deemed Compensatory</u>	<u>Cumulative Amount deemed Compensatory</u>
end January	200	17	8.5	8.5
end February	200	33	8.0	16.5
end March	200	50	8.5	25.0
end April	200	67	8.5	33.5
end May	200	83	8.0	41.5
end June	200	100	8.5	50.0
end July	200	117	8.5	58.5
end August	200	133	8.0	66.5
end September	200	150	8.5	75.0
end October	200	167	8.5	83.5
end November	200	183	8.0	91.5
end December	200	200	8.5	100.0

It may be of interest to illustrate the working of the new scheme in another imaginary case (Case (3)) in which (a) the underlying shortfall declines so much in the course of the twelve-month period with respect to which the paragraph (5) drawing is requested that even the prorated shortfalls sometimes decline, and (b) the prorated amounts of the "ordinary" drawings are sometimes (e.g., in the March and June drawings) smaller than the amount that would have been required to compensate half of the (not previously compensated) shortfalls.

Case 3

(Twelve-month period associated with paragraph (5) drawing
ends December)

<u>Date of</u> <u>"Ordinary"</u> <u>Drawing</u>	<u>Amount of</u> <u>"Ordinary"</u> <u>Drawing</u>	<u>Prorated</u> <u>Drawing</u>	<u>Shortfall</u>	<u>Prorated</u> <u>Shortfall</u>	<u>Amount of Draw-</u> <u>ing Deemed</u> <u>Compensatory</u>	<u>Cumulative</u> <u>Amounts</u> <u>Deemed</u> <u>Compensatory</u>
end March	140	35	300	75	35.0	35.0
end June	20	10	200	100	10.0	45.0
end September	24	18	100	75	--	45.0
end December	75	75	80	80	--	45.0

In this case, if a paragraph (5) drawing were made for the year ending December under the suggested method, the shortfall would be 80, the amount previously compensated 45, and the amount remaining to be compensated 35. Under the present method of computing double compensation for a sequence of drawings, the amount of compensation attributed to "ordinary" drawings would have cumulated to 70 and the amount remaining to be compensated by the paragraph (5) drawing would have been only 10.

D. The Ex Post Procedure after the Changes

If the various changes introduced for the Colombian drawing and the further changes now proposed are adopted, the *ex post* procedure for dealing with double compensation will stand as follows:

1. For each "ordinary" drawing that has taken place in the course of the twelve-month period with respect to which the paragraph (5) drawing is requested, a calculation will be made to see whether any export shortfall has occurred during the twelve months preceding the "ordinary" drawing, and any shortfall that may have occurred will be prorated to arrive at an amount to be attributed to the period with respect to which the paragraph (5) request is made.
2. Any "ordinary" drawing that may have occurred after the end of the period with respect to which the paragraph (5) drawing is requested and the date at which the Board acts on the request will be treated as if it had occurred at the end of the period with respect to which the paragraph (5) drawing is requested.
3. The export shortfall associated with an "ordinary" drawing under (1) above will be measured as a shortfall from a norm equal to the average annual exports for the five years centered on the twelve-month period preceding the "ordinary" drawing in question. Exports for the two years following the "ordinary" drawing will be calculated by assuming, (a) as regards the interval between the "ordinary" drawing and the end of the

twelve-month period with respect to which the paragraph (5) drawing is requested, that exports take place at the annual rate implied in the statistical formula estimate for the two years following the "ordinary" drawing, and (b) as regards the remainder of the two years following the "ordinary" drawing, that exports take place at the same annual rate as is estimated for the two post-shortfall years in connection with the paragraph (5) request.

4. As regards the amounts that will be deemed to be compensated by "ordinary" drawings, the following will apply:

(a) In the case of the first "ordinary" drawing occurring in the twelve-month period with respect to which the paragraph (5) drawing is requested, half of the prorated shortfall calculated in the manner described at (1) to (3) above, or the amount of the drawing itself, similarly prorated, whichever is the less, will be deemed to be compensated by the drawing in question.

(b) In the case of a second "ordinary" drawing or subsequent "ordinary" drawings occurring within the twelve-month period with respect to which the paragraph (5) drawing is requested, an analogous procedure will be followed, except that the amount deemed to be compensated by any such drawing will be equal to (a) the excess (if any) of half the prorated shortfall associated with the drawing over the cumulative amount deemed to have been compensated by previous drawings, or (b) the prorated amount of the drawing in question, whichever is the less.

Ex ante versus Ex post

So long as the elements of export compensation deemed to be included in "ordinary" drawings are not in all cases explicitly stated at the time when outright drawings and stand-bys are concluded, it will be necessary to have some standard *ex post* procedure for the calculation of double compensation.

The question remains, however, to what extent and under what circumstances it is desirable and practicable that such explicit statements be made at the time when drawings and stand-bys are granted.

It would seem premature to attempt to give any general answer to this question at this time. The *ex post* approach, as at present applied, rests on two assumptions that clearly may not correspond to the facts: (a) that any compensatory element included in an "ordinary" drawing is intended to deal with the shortfall, if any, arising in the twelve-month period prior to the drawing in question, and (b) that it is intended to cover half the amount of the said shortfall. On the other hand, the *ex post* method has the great virtue of applying in a non-discriminatory way to all countries requesting drawings under paragraph (5).

The *ex ante* specification of the compensatory element in an "ordinary" drawing is not very meaningful in cases when the shortfall considered to be compensated relates to a period that is wholly in the past, unless, indeed, it is desired to ensure that in the event of a subsequent paragraph (5) drawing some proportion other than half of that shortfall should be deemed to be "previously compensated."

When, as will normally be the case, the shortfall is an anticipated one, the *ex ante* approach involves the forecasting of a shortfall calculation that itself involves the forecasting of exports in post-shortfall years. This is a hazardous calculation, and it would be laborious and time consuming to have to undertake it on the occasion of each "ordinary" drawing and stand-by. Moreover, as already explained, it would seem to require that the compensatory amounts provided for in "ordinary" drawings and specified at the time of the drawing or stand-by be conservatively estimated in relation to the shortfall actually anticipated. On the other hand, the *ex ante* method may at times permit a more flexible adaptation to the circumstances and needs of the country concerned, and makes it easier for the stand-by procedure to take care of balance of payments needs of all kinds, including those arising from export fluctuations. Moreover, when the shortfall is confidently predictable it seems appropriate to take account of it in advance.

The provisional conclusion would seem to be that for the time being the *ex ante* approach should be followed only where the drawing is intended to cover all--or none--of the needs of a country with respect to a past shortfall, or where a substantial future shortfall is clearly anticipated and the drawing or the stand-by is intended to cover in advance some specifiable portion of it other than would automatically be assumed by the *ex post* procedure.

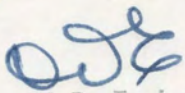
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DM/67/12

INTERNATIONAL MONETARY FUND

Exchange and Trade Relations Department

UNCTAD - Its Purposes, Organization and Developments to Date

Prepared by Pierre A. Simonet

Approved by R. J. FAMILTON

March 1, 1967

The United Nations Conference on Trade and Development (UNCTAD) held its first session in Geneva from March to June 1964. It was established as a permanent organ of the General Assembly of the UN on December 30, 1964. 1/ The UNCTAD institutional machinery suggested by the Conference and confirmed by the Assembly consists of a Trade and Development Board (hereafter referred to as the Board), three (later four) committees of the Board, and a permanent secretariat. 2/

A second Conference will be convened in New Delhi in February-March 1968. In view of this, and the fact that UNCTAD has now completed two years of operations, it is thought appropriate to prepare a factual paper which recalls the purposes of UNCTAD, outlines its organization, and describes various work undertaken to date.

1/ Resolution adopted by the General Assembly 1995 (XIX): Establishment of the United Nations Conference on Trade and Development as an organ of the General Assembly, dated December 30, 1964 (see Appendix III).

2/ Some of the reports issued to the Executive Board on the establishment of the UNCTAD are listed in Appendix I.

For the convenience of readers, a summary table of contents is set out below.

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I. The Purposes of UNCTAD

When the General Assembly of the United Nations, in December 1961, designated the current decade as the "UN Development Decade" it also approved a resolution on international trade as the primary instrument for economic development, which envisaged holding an international conference on trade problems. Pursuant to this, the UN Economic and Social Council (ECOSOC), in a resolution^{1/} sponsored by Brazil, Ethiopia, India, and Yugoslavia, resolved to convene a United Nations Conference on Trade and Development; it also decided to convene a Preparatory Committee in the early Spring of 1963 to consider the agenda and documentation for the conference with particular reference to the problems of the developing countries. The resolution took note of the joint declaration of developing countries^{2/} and of the proposed program of action of the GATT Ministerial meeting in November 1961, and expressed the hope that significant progress would continue to be made in implementing that program of action.^{3/} Fund staff representatives attended meetings of the Preparatory Committee from January 1963 until February 1964.

In December 1962, the General Assembly of the UN endorsed the ECOSOC decision to convene the Conference; subsequently, in November 1963, the General Assembly noted with appreciation the work already done by the Preparatory Committee of the Conference and welcomed the Joint Declaration of Seventy-five Developing Countries with regard to the UNCTAD which stated that: "The developing countries consider that the UNCTAD should represent an outstanding event in international cooperation conducive to the development of their economies and to the integrated growth of the world economy as a whole ... International trade could become a more powerful instrument and vehicle of economic development not only through the expansion of the traditional exports of the developing countries, but also through the development of markets for their new products and a general increase in their share of world exports under improved terms of trade. For this purpose, a new international division of labour, with new patterns of production and trade, is necessary ... The existing principles and patterns of world trade still mainly favour the advanced parts of the world ... the accelerated development of the parts of the world which are lagging behind requires more than the unconditional application of the most-favoured-nation principle and the mere reduction of tariffs." This resolution also called for "the establishment of a new machinery and methods for implementing the decisions of the Conference."

^{1/} Resolution 917 (XXXIV) of August 3, 1962 (see Appendix II).

^{2/} The text of this resolution was later amended to Resolution 1897(XVIII) of the General Assembly.

^{3/} In May 1963, the CONTRACTING PARTIES resolved to launch the Action Program and in February 1965 agreed on the text of a new Part IV of the General Agreement dealing with Trade and Development which was applied on a de facto basis since February 8, 1965 and which entered into force de jure for accepting Contracting Parties on June 27, 1966. For the text of this new Part IV see SM/66/125.

1. The First Conference

The First Conference was held in Geneva from March 23 to June 15, 1964. Representatives of 120 countries, including the socialist countries of Eastern Europe, participated and there were observers from 13 specialized agencies and 34 nongovernmental organizations.^{1/} The Conference afforded an opportunity for a comprehensive appraisal of current world problems in the field of trade and development and for an exchange of views among the participants, especially from the point of view of the developing countries (officially designated in the Conference as Groups A and C).^{2/}

Five sessional committees were established to deal respectively with primary commodities, manufactured and semimanufactured products, development finance and questions related to shipping and insurance, institutional matters, and principles of international trade. The Conference adopted many of the recommendations prepared by the committees, some without dissent but several with varying degrees of support. The Final Act of the Conference^{3/} consisted of a description of its background and proceedings (First Part), a consolidation of the recommendations (Second Part), and annexes (Third Part) incorporating the various recommendations. The recommendations referred to the permanent machinery to be established, to the substantive issues to be included in the proposed Trade and Development Board's program of work, and set forth a number of general and special principles recommended by the Conference "to govern international trade relations and trade policies conducive to development."

a. Recommendations on principles

Considerable importance was attached, particularly by the developing countries, to the 15 general and 12 special principles "to govern international trade relations and trade policies conducive to development," adopted by the Conference. Some of the general principles were very broad in scope; (e.g., the sovereign equality of states, nondiscrimination on the basis of differences in socio-economic systems) while some special principles related to particular subjects (e.g., the principle that "developing countries have the right to protect their infant industries", or the principle

1/ The Managing Director addressed the Conference on March 26, 1964.

2/ Group A (61 countries) includes Afro-Asian countries plus Yugoslavia; Group C (22 countries) includes Latin America and Western Antilles; Group B (29 countries) includes Western Europe, Japan and North America, Australia, New Zealand and South Africa; and Group D (9 countries) includes Eastern Europe and the U.S.S.R. For a full list of the various groups see Appendix IV.

3/ See E/CONF.46/L.28.

that "all countries shall refrain from all forms of dumping"). In the voting on the principles, abstentions were recorded on all but four, and negative votes were cast in the voting on about half. Because of considerable differences within the groups of countries, no broad agreement could be reached and the absence of such agreement led the Conference to recommend that the proposed institutional machinery should continue efforts to achieve as soon as possible a broad measure of agreement on a set of principles.

One principle, which concerned the transit trade of land-locked states and their right of free access to the sea, was adopted without dissent. It called for the appointment of a committee to prepare a new draft convention dealing with the transit trade of land-locked countries. On the basis of the work of this committee a conference of plenipotentiaries was convened by the General Assembly of the UN and, on July 8, 1965 it adopted a Convention on Transit trade of Land-locked Countries. In mid-January 1967, the Convention had been ratified by one country and, in addition, four countries had acceded to it; it will come into force when two land-locked and two transit countries have ratified it.

b. Recommendations on particular matters

In addition to the 27 principles, the Conference adopted 58 more concrete recommendations which related to a wide range of issues including:

- (i) International commodity arrangements, the price of primary commodities, and barriers obstructing access to the markets of developed countries for primary products;
- (ii) Barriers obstructing access of manufactured and semimanufactured products, particularly barriers obstructing their access to the markets of developed countries; the question of the granting of preferences by developed countries to developing countries in relation to these products;
- (iii) Economic development and its financing including foreign aid and growth targets, and technical cooperation;
- (iv) Monetary issues;
- (v) Invisibles, including insurance and shipping;
- (vi) International trade including East-West trade and long-term trade agreements.

Recommendations of special interest to the Fund concerned debt problems, compensatory and supplementary financing, and international monetary

issues. Thus, Recommendation A.IV.1, ("Guidelines for international financial cooperation") which was adopted without dissent. in addition to setting forth criteria for financial assistance by industrialized countries and international financial institutions, provided that: "industrialized countries, international institutions and individual developing countries themselves should cooperate to undertake appraisals of the external indebtedness of individual developing countries, with the objective of promoting, whenever warranted and in appropriate conditions, the rescheduling or consolidation of debts with appropriate periods of grace and amortization and reasonable rates of interest."

More specifically, Recommendation A.IV.5 provided that: "United Nations bodies and/or other international financial institutions should stand ready, at the request of any developing country, to review, in cooperation with the creditor countries concerned, the external indebtedness of the developing country concerned ... with a view to securing agreement, if necessary on the rescheduling or consolidation of debt ..." It further stated that: "the international financial agencies should consider the possibilities of adapting their organizations and procedures with a view to improving the terms of their transactions, keeping in view the particular problems of developing countries." The Conference approved this recommendation with no negative votes and 11 abstentions; the abstentions included countries with centrally planned economies.

A recommendation of special relevance to the Fund was Recommendation A.IV.17 which dealt with compensatory finance. After noting that the Fund's scheme in operation since February 1963 "constitutes a definite step toward the solution of short-term financing problems", the Conference recommended that Governments members of the Fund should study the following measures:

"1. To increase, as soon as possible, the amount allocated by the Fund to compensatory financing over and above its current transactions, from 25 per cent to 50 per cent of a member country's quota;

"2. To place compensatory credits entirely outside the structure of the gold and successive credit tranches, so that the drawing of compensatory credits would not directly or indirectly prejudice a member's ability to make an ordinary drawing;

"3. To explore ways to secure possible refinancing of compensatory financing obligations of the developing countries in the event of a persistent shortfall in export receipts beyond the control of the affected country."

In the same recommendation "the Conference requests that the International Monetary Fund, in its determination of the shortfall in export receipts, consider giving greater weight to the actual experience of the three preceding years." This recommendation was adopted by the Conference without dissent.

In Annex A.IV.18 the Conference recommended that the IBRD "be invited to study the feasibility of a scheme" which "should aim to deal with problems arising from adverse movements in export proceeds which prove to be of a nature or duration which cannot adequately be dealt with by short-term balance of payments support. Its purposes should be to provide longer term assistance to developing countries which should help them to avoid disruption of their development programs." The principles recommended as a basis for the scheme included:

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

This recommendation on supplementary financial measures which resulted from a United Kingdom/Swedish initiative, was adopted by the Conference with no negative votes, but with ten abstentions, which included countries with centrally planned economies.

Recommendation A.IV.19 on international monetary issues called for the Secretary-General of the Conference, "in the light of the studies under way and after consultation with the appropriate international institutions, to take steps to convene a group of experts ... to consider the international monetary issues relating to problems of trade and development ..." The group was to consult with the Fund and other international and regional financial and monetary institutions. When this recommendation was adopted by the Conference it was opposed by 11 developed countries with market economies; 17 countries abstained.

Other recommendations concerned the flow of private and public capital to the developing countries, interest equalization tax, suppliers' credit, and East-West trade. For instance, Recommendation A.IV.2 on "Growth and aid," provided that each economically advanced country should endeavor to supply financial resources to the developing countries of a minimum net amount approaching as nearly as possible the equivalent of 1 per cent of its national income, while in Recommendation A.IV.12, the governments of capital-exporting-developed countries were asked to take all appropriate steps to encourage the flow of private investments to developing countries.

Yet another recommendation (A.IV.4, "Terms of financing") provided that donor countries, in framing their policies, should improve the terms of financing made available to developing countries; some part of repayment of loans should be accepted in national currencies of the debtor countries and repayments should be spread over a considerably longer period, which normally should be not less than twenty years. The recommendation also stated that interest rates for development loans should take into account the repayment capacity of the borrowing country and as far as possible should not be tied to particular projects or, in the case of loans for purchase of capital equipment, should not ordinarily be tied to purchases in donor countries. It also requested aid consortia or consultative groups to aim at the establishment of more consistent terms and conditions among participants and at the liberalization of procurement procedures.

Recommendation A.IV.11 concerned the so-called Horowitz proposal (see below, page 18) for an interest equalization fund and requested the IBRD to make a study covering all its aspects.

Another recommendation (A.IV.14) invited the IBRD to make a study of the use (actual and potential) and of the terms of suppliers' credits and credit insurance: (i) for financing exports from developed to developing countries; (ii) as regards their effects on competition between the exports of developing and developed countries as well as between the developed countries; (iii) as a means of financing trade between the developing countries.

Three recommendations, A.II.5, A.III.8 and A.IV.10 were concerned with the steps to be taken by developing countries and the international community with a view to promoting trade and economic cooperation among developing countries.

A recommendation (A.VI.3) was adopted in which the view was expressed that the utilization of long-term trade agreements, particularly among countries with different economic and social systems and among developing countries, should be expanded, but owing to lack of time, the Conference (Recommendation A.VI.7) decided to transmit to the permanent organization the responsibility for further consideration and action on East-West trade.

II. The UNCTAD Organization

As mentioned above, the UNCTAD Organization comprises a periodic Conference (normally to be held every three years), the Trade and Development Board with its various committees, and a permanent secretariat. Sub-Committees, working parties, and expert groups are appointed as necessary on an ad hoc basis.

1. The Conference

The United Nations Conference on Trade and Development referred to as "the Conference", comprises the States members of the United Nations and of its specialized agencies and of the International Atomic Energy Agency (IAEA). Each State represented at the Conference has one vote and decisions of the Conference on matters of substance are taken by a two-thirds majority of the representatives present and voting. As the proceedings of the first Conference illustrated, this meant that the countries belonging to Groups A and C (i.e., Africa, Asia and Latin America) were almost always able to muster a two-thirds majority and some recommendations were thus adopted without the support of the major trading nations. Formal procedures were designed to provide a process of conciliation before voting on specific proposals. Such procedures were initiated by a small number of countries when a proposal calling for action was considered likely substantially to affect their economic or financial interests. This so-called cooling-off procedure was extensively used during the Conference.

The terms of reference of the Conference are comprehensive (see Resolution 1995 in Appendix III). It shall, inter alia, promote international trade, especially with a view to accelerating economic development, and formulate principles and policies on international trade and development and make proposals for putting them into effect. The Conference cooperates with the General Assembly and the Economic and Social Council with respect to the performance of the responsibilities for coordination under the charter of the United Nations especially in the field of international trade and related problems of economic development.

2. The Trade and Development Board

The Trade and Development Board is a permanent organ of the Conference; it normally meets twice a year and may also be called in special session. It consists of 55 members elected by the Conference from among its membership and according to the following distribution of seats:

22 members from Group A countries

18 members from Group B countries

9 members from Group C countries

6 members from Group D countries

Full regard is also given to continuing representation of the principal trading states. The representatives of specialized agencies of the International Atomic Energy Authority and of selected intergovernmental bodies may participate, without the right to vote, in the deliberations of

the Board and its subsidiary bodies on questions within the scope of their activities. Nongovernmental organizations such as the International Federation of Christian Trade Unions, the International Chamber of Commerce, may--and do--participate in the deliberations of the Board and its subsidiary bodies.

Decisions of the Board are taken by a simple majority of the representatives present and voting.

Since the inception of UNCTAD, the principle of coordinated group action by a number of countries has been applied continuously within the Conference, the Board, and all the subsidiary bodies and has spread, now, also to other UN bodies. The regional economic commissions of the UN have provided substantial assistance in the discussion and formulation of joint policies within their respective regions while the OECD has assisted the countries, members of Group B, in the coordination of studies and activities related to their participation in UNCTAD meetings. Continuous informal negotiation and coordination among the Groups is also a feature of the meetings of the Board and of its committees.

As its permanent organ, the Trade and Development Board performs the functions of the Conference between sessions. In particular, it is called on to keep under review the recommendations and decisions of the First Conference and to take appropriate action for their implementation. It is also supposed to establish links with intergovernmental bodies whose activities are relevant to its functions. In its relations with other UN agencies, the Board agreed to act in conformity with the responsibilities of the Economic and Social Council, and with the UN relationship agreements with the agencies concerned. The Board reports to the Conference and also reports annually on its activities to the General Assembly through the Economic and Social Council. The main discussion of the Board's report takes place in Committee II of the General Assembly.

3. Subsidiary bodies of the Trade and Development Board

The Final Act recommended the establishment of the Committees on Commodities, Manufactures, and Invisibles and Financing Related to Trade for the effective discharge of the Board's functions. At its first session (April 1965) the Board adopted terms of reference for the 55 member Committee on Commodities, and the 45 member Committees on Manufactures, and on Invisibles and Financing Related to Trade. The Board also established a Committee on Shipping. The rules of procedure of the four committees are similar to those of the Board with some amendments to take care of differences in membership and subject matter. Meetings of the committees and of the Board itself are, in general, public. The committees exercise in their respective fields the basic functions that devolve upon the Conference and the Board. More specifically the Committee on Commodities is required to coordinate, within the competence of the Conference and the Board

in this respect, the activities of all bodies involved in the commodity field, and to encourage the negotiation of international stabilization agreements or other commodity arrangements. The Committee on Commodities performs the functions which used to be carried out by the Commission on International Commodity Trade (CICTC). An Advisory Committee to the Board and to the Committee on Commodities, comprising seven members, replaced the former Interim Coordinating Committee for International Commodity Arrangements (ICCIICA). Because the Committee accorded the highest priority to the question of preference for exports of manufactures from developing countries the Board, at its second session, decided to set up a Group on Preferences as a subsidiary body of the Committee.

The Committee on Manufactures has the task of promoting general and consistent policies to expand and diversify the export trade of developing countries in manufactured and semimanufactured articles.

The Committee on Shipping, under its terms of reference, is required to promote understanding and cooperation in the field of shipping and is to pay particular attention to those shipping matters which affect the trade and balance of payments of developing countries.

The Committee on Invisibles and Financing Related to Trade has a wide range of responsibilities of direct interest to the Fund; it keeps under review the problems in the service of developing countries' external debt and is engaged in studying proposals on compensatory and supplementary financing. It is also concerned with the adequacy of rates of growth, foreign aid, and with questions of insurance and reinsurance. In order to assist in the performance of its functions, the Board and this Committee have set up a number of permanent or ad hoc subsidiary bodies or groups of experts, including the Expert Group on International Monetary Issues, the Inter-Governmental Group on Supplementary Financing, the Expert Group on the Horowitz Proposal, and an Expert Committee on Expansion of Trade Among Developing Countries and on Regional Development.

4. The Secretariat

The UNCTAD is served by a permanent secretariat with offices at the Palais des Nations, Geneva, which is within the framework of the United Nations secretariat, and is headed by the Secretary-General of the Conference, appointed by the Secretary-General of the United Nations. The secretariat comprises an Office of the Secretary-General of the Conference, an Office of Administration, a New York Liaison Office and seven Divisions: the Division for Conference Affairs and External Relations, the Research Division, the Trade Policies Division, the Commodities Division, the Manufactures Division, the Division for Invisibles and the Division for Trade with Socialist Countries. The former Division of Financing Related to Trade has been merged with the New York Liaison Office. The expenses of the Conference, its subsidiary bodies and secretariat, are met from the regular budget of the United Nations under a separate appropriation.

III. Developments to Date

1. Work load

An indication of the work load is given in the attached calendar of meetings of the Trade and Development Board, its committees, sub-committees, expert groups, and other related bodies (see Appendices XI and XII).

At the second session of the Trade and Development Board in August - September, 1965 the Secretary-General of UNCTAD, in his opening address, expressed his concern about the work load to be carried out by the secretariat in the servicing of the many meetings of the Board and its subsidiary committees and groups. This pressure continued to be felt throughout the remainder of 1965 and in 1966, and it was necessary to postpone some meetings such as, for instance, the second sessions of each of the four committees of the Board, which were first scheduled in the fall of 1966 but will now be held in the first six months of 1967.^{1/} More recently, in an address to the UN General Assembly's Committee II on November 28, 1966, the Secretary-General again alluded to the heavy demands made on the secretariat by the number and duration of meetings. The Trade and Development Board (in its second session) had recommended to the General Assembly that the Second Conference be convened in the first part of 1967 but subsequently decided that it should be held later in 1967 in New Delhi. As mentioned above, the date finally decided upon is February-March 1968.

2. Trade and Development Board

The Trade and Development Board held its first meeting in New York in April 1965 and dealt with such matters as the establishment of rules of procedure, the terms of reference and membership of the Four Committees, and the location of the Secretariat. Subsequently, it held three ordinary and two extraordinary sessions. The next ordinary session, the fifth, is scheduled for August-September 1967.

As mentioned above, the Board considers and reviews the reports of its subsidiary bodies and expert groups and takes appropriate action on their proposals. One task which has particularly occupied the Board at each of its regular sessions, has been the review of the implementation of the recommendations of the Conference.

At the second of its two sessions each year, the Board is required to consider a report by the Secretary-General of the Conference as a background for the review and assessment of the implementation of the Conference resolutions. The first such report was examined by the Board in

^{1/} So far, UNCTAD has devoted over 500 working days to conferences.

its fourth session (in September-October 1966) when concern was expressed about the disappointing rate of growth of the developing countries at the mid-point of the United Nations Development Decade, the stagnation of the flow of financial resources from the developed to developing countries, and the existence of commercial policies of the developed countries involving discrimination against products from developing countries. During that session a memorandum was produced by a group of 31 developing countries which set out their views on the review of the implementation of the recommendations of the Conference. However, an agreed recommendation by the Board could not be arrived at and the memorandum was simply included in the report of the Board's session. In the first part of the memorandum, which is reproduced as Appendix VIII, the facts which are said to have impeded the economic growth and development of the developing countries are set out. In the second part, it is recommended: "that the developed countries should, as a short-term program of implementation, take immediate action between now and the opening of the Second Conference" in several fields. These include the conclusion of international commodity arrangements on cocoa and sugar; the reduction or elimination of tariffs on products of interest to developing countries; a scheme of general and nondiscriminatory preferences; the implementation of the aid target of 1 per cent of national income; action in regard to the alleviation of the debt burdens of developing countries and, in appropriate cases, their rescheduling; the softening of terms and conditions of loans and the formulation of a practical scheme of supplementary finance. Further discussion on implementation will take place in each of the four committees in 1967 with a view to evolving practical schemes to deal with the relevant problems and issues.

3. Committee on Shipping

The first session of the Committee on Shipping was held in November 1965 in Geneva; the second session is scheduled for February 21-March 8, 1967. In July 1966 the Committee held a special session. At its first session the Committee was mainly concerned with organizational matters and with drawing up a program of work. The program agreed upon^{1/} included the collection of material relating to national and regional consultation machinery; a secretariat study of consultative machinery "adaptable to the need of varying economic and other conditions in different parts of the world"; studies on the level and structure of freight rates, conference practices and adequacy of shipping services, and on the improvement of port operations; a general review of the development of the merchant marines in developing countries which would include the examination of such questions as the relative priority of investment in shipping and the net effect of shipping operations on the balance of payments; and reviews of current and certain long-term aspects of international shipping.

^{1/} See TD/B/36.

Following the first session, the secretariat issued papers relating to the general question of the level and structure of freight rates, conference practices and adequacy of shipping services, which were considered at the Committee's special session along with two proposals on the program of work--one submitted by representatives of the developing countries supported by those of the socialist countries of Eastern Europe, another by representatives of the developed countries. After considerable discussion (and roll-call votes on one paragraph and the text as a whole) a research program was approved which set out the objectives of studies of freight rates and provided for country, commodity, route, and aggregative studies.

In December 1966, the secretariat organized a seminar on shipping economics: the views expressed by the participants (mainly academic economists) are contained in the report (TD/B/C.4/17).

4. Committee on Commodities

The Committee on Commodities held its first meeting in Geneva in July-August 1965. It set up a permanent group on Synthetics^{1/} and a permanent sub-committee on Commodities. From the outset, the Committee concentrated its attention on cocoa. In his introductory address to the second session of the Board, the Secretary-General of UNCTAD stressed the importance of action on cocoa and the Committee and the Board were instrumental in the convening of the second session of the UN Cocoa Conference in May-June 1966 in New York. The 1966 Conference made appreciable progress on a number of issues but could not reconcile certain divergent views and failed to reach agreement.^{2/} At the fourth session of the Board, the developing countries which are members of the Board, submitted a joint declaration in which they expressed their unanimous desire to reach a cocoa agreement before the Second Conference. Subsequently, meetings were held in New York in early December 1966 and further meetings are planned for this year.

The UN General Assembly, on December 17, 1966 adopted a resolution expressing "deep disappointment at the failure of the 1966 UN Cocoa Conference" and affirming "the need for reaching an international cocoa agreement at an early date and in any case not later than the beginning of the 1967-68 cocoa season."

5. Committee on Manufactures

The first session of the Committee on Manufactures was held in Geneva in August 1965 and resumed in March 1966. The Committee created subsidiary bodies on preferences and proposed the establishment of a joint UNCTAD/FAO Working Party on Forest and Timber Products.

^{1/} The permanent group on Synthetics has not yet met.

^{2/} See DM/66/53, pp. 7 and 8.

The first report of the Committee on Manufactures together with the first report of the Group on Preferences, was considered by the Board at its fourth session. The issue of reverse preferences (i.e., higher tariff rates applied to manufactures exported by developing countries than those applied in general to manufactures exported by developed countries) was considered by a number of representatives from developing countries as the most important one to be studied by the UNCTAD bodies concerned with manufactures. Draft resolutions were introduced by developing countries on tariff differentials, nondiscriminatory preferences, the Kennedy Round, and trade expansion of manufactures of developing countries: these resolutions have been held over for reconsideration at the fifth session of the Board.^{1/} At the special session of the Board on December 21, 1966 the Secretary-General reported that, in the light of the work in progress in the OECD and the EEC, good prospects now existed for a break-through on the question of preferences.

At its fourth session in September-October 1966, the Board approved the proposal by the Committee on Manufactures to establish the joint UNCTAD/FAO Working Party on Forest and Timber Products; the Working Party held its first session in early November 1966 in Geneva.

6. Committee on Invisibles and Financing Related to Trade

The Committee on Invisibles and Financing Related to Trade held its first session in Geneva in December 1965. Staff representatives have attended the meetings of the Committee and its sub-groups such as the Expert Group on International Monetary Issues, the Expert Group on the Horowitz Proposal and the Intergovernmental Group on Supplementary Financing.

a. Compensatory financing

Recommendation A.IV.17 on "measures related to the compensatory credit system of the International Monetary Fund" had been adopted by the Conference without dissent. The question was discussed again at the third session of the Board (January-February 1966) when a resolution sponsored by 30 developing countries was adopted by 44 votes to none, with two abstentions. This recommendation stated that, "considering that the availability of a study on the improvement of the Compensatory Credit System of the International Monetary Fund would facilitate the consideration of the IBRD staff

^{1/} Work on preferences has also been undertaken in the GATT, the OECD and the EEC. For example, in July 1966 the GATT issued a report which concluded that the question of preferences should pose an important problem after the Kennedy Round, while on December 17, 1965 the OECD Council created a special group to study problems regarding trade between developed and developing countries. The group consists of senior trade officials from France, Germany, the United Kingdom and the United States. In December 1966 the EEC issued a report proposing that a system of nonreciprocal preferences should be established in favor of developing countries.

report on Supplementary Financial Measures invites each Government member of the IMF to endeavor to ensure that the study is made available as soon as possible."

The Fund report, published on September 26, 1966, refers to this Recommendation A.IV.17. Neither the Trade and Development Board nor the Committee on Invisibles and Financing Related to Trade have met since the publication of the Fund report, but it was referred to favorably by some delegations at ECOSOC during the recent discussion (December 1966) of the Fund's Annual Report for 1966.

b. Supplementary financial measures

As mentioned earlier, the recommendation in Annex A.IV.18 on supplementary financial measures had been adopted by the Conference by 106 votes to none, with 10 abstentions and invited the IBRD to study the feasibility of a scheme the objectives and principles of which were set forth in the recommendation, and, if appropriate, to work out such a scheme. In December 1965, the IBRD published a staff report on "Supplementary Financial Measures" which was transmitted to UNCTAD in response to their request.

The Committee on Invisibles and Financing met in April 1966 to consider the Bank staff study. The Committee noted "the considerable measure of support in the Committee for the concept of supplementary financial measures elaborated in the Bank staff study" and decided, subject to the approval of the Trade and Development Board, to set up a small group of representatives of governments consisting of 13 to 15 members, to study and report on this matter to the second session of the Committee. This UNCTAD Intergovernmental Group on Supplementary Financing met in Geneva in mid-October 1966 with observers from the IBRD, the IMF and the OECD attending. As mentioned in the report of the Fund staff representative at that meeting (SM/66/112) the discussions of the Group ranged over a wide field but were essentially of a preliminary character. The Group met again in February 1967 to consider various studies prepared by the IBRD staff (see Appendix VII and also SM/66/112, page 6).

c. International monetary issues

The Conference had adopted Recommendation A.IV.19 on "International Monetary Issues" by a roll-call vote of 87 to 11, with 17 abstentions. In its preamble the recommendation emphasized the necessity to ensure ... "that any arrangement for the solution of the currency problems of the major trading countries should take fully into account the needs of developing nations." It added that "further study is needed of the possibility of payments arrangements for developing countries on both a regional and an extra-regional basis that might facilitate the liberalization of trade among them." It recommended that "the Secretary-General of the Conference ... convene a group of experts ... to consider the international monetary issues relating to problems of trade and development."

Such a group of 12 experts^{1/} from developed and developing countries was accordingly established, met twice, in October 1965 and July 1966, and issued two reports on international monetary issues. Fund staff members participated as observers in both sessions.

The first of these reports^{2/} mainly dealt with international liquidity and set out a plan for liquidity creation in which an important feature was a link between reserve creation and development finance. It was first considered by the Committee on Invisibles and Financing Related to Trade in December 1965 and later by both that Committee and the Trade and Development Board.

At the special session of the Committee and at the third session of the Trade and Development Board, both of which were held in January-February 1966, it was widely agreed that the interests of all countries should be taken into account in any reform of the international monetary system. Developing countries submitted a "Joint Memorandum on International Liquidity"^{3/} in which it was stated, inter alia, that "no country that wishes to pursue independent economic policies, to provide for continuity in them, and to ensure that they are protected against unforeseen disturbances, can afford to be without adequate reserves." The Board took note of the memorandum and adopted a resolution that the Committee's report, together with the documents relating to international monetary issues, should be transmitted to the international monetary institutions for their due consideration. However, representatives of socialist countries of Eastern Europe were of the opinion that UNCTAD, as the most universal international body, should be the central agency in which to consider a reform of the system.

At the fourth session of the Trade and Development Board, in September-October 1966, there was no discussion on this topic. However, it is referred to in a resolution by the UN General Assembly adopted on December 17, 1966 the text of which is reproduced in Appendix IX.^{4/} The resolution which had been introduced by the Ceylonese delegation, inter alia "requests the Secretary-General of UNCTAD to consult with the Managing Director of the Fund on the progress of activity relating to international monetary reform and to report to the Trade and Development Board at its fifth session through the Committee on Invisibles and Financing Related to Trade."

^{1/} See Appendix VI for the composition of the group. The report of the group on regional payments arrangements among developing countries will be considered at the second session of the Committee to be held in New York in April 1967.

^{2/} See TD/B/32 and Appendix I.

^{3/} See TD/B/57 and Appendix I.

^{4/} See also EBD/66/184.

d. Trade expansion and economic cooperation among developing countries

Two Recommendations A.II.5 and A.III.8 concerning the promotion of trade among developing countries, and Recommendation A.IV.10 on regional development, had been adopted without dissent. They call on developing countries to liberalize and strengthen their trade and monetary relations, to encourage the establishment of regional financial and payments arrangements, and to cooperate in regional or subregional groupings.

In compliance with the program of work adopted by the Board in its first session the Secretary-General of the UNCTAD appointed an expert committee to examine measures for the expansion of trade among developing countries and to study the problems of regional development. This expert committee met in New York in February/March 1966 and issued a report on "Trade Expansion and Economic Cooperation Among Developing Countries" which describes policy implications and issues raised by measures of trade liberalization among developing countries and by the coordination of investment and production programs and also by the regional integration of national markets.

This report will be discussed by the Committee on Invisibles and Financing Related to Trade in its second session in April 1967. It will also be considered at the fifth session of the Board "with special regard to the international action to be taken in support of the efforts of the developing countries." The subject of trade expansion among developing countries was also on the agenda of the GATT Committee on Trade and Development which met in January 1967.^{1/}

The monetary and payments aspects of trade expansion and economic cooperation among developing countries were tackled by the expert group on international monetary issues in its second session (see paragraph (c) above).

e. Growth and aid targets

Recommendation A.IV.2 on "Growth and aid" had been adopted by the Conference by 107 votes to none, with 9 abstentions.

In response to this recommendation, the Development Assistance Committee of the OECD at its 58th meeting on July 23, 1965 adopted a recommendation on assistance and development efforts, to the effect that "Member-Governments take appropriate steps to ... attain and if possible exceed the UNCTAD target of 1 per cent of national income, as defined in

^{1/} See SM/67/16.

the UNCTAD recommendation on Growth and aid." This recommendation was passed in an effort to reverse the unfavorable trend manifest in the past few years.^{1/}

This question was discussed in the Committee and also at the third and fourth sessions of the Board. At the latter session a resolution on the urgency of increasing the volume of developmental assistance was adopted without a vote. The resolution includes a reference to the finding of the World Bank in its annual report for 1964-65, "that the capability of developing countries to make productive use of resources has now increased so that they can effectively use, on an average over the next five years, some \$3 billion to \$4 billion per year more than they actually received in the recent past."

f. Terms and conditions of aid

Two Recommendations, A.IV.1 and A.IV.5, adopted by the Conference requested member countries and international institutions to appraise the external indebtedness of individual countries with a view to securing agreement, if necessary, on the rescheduling or consolidation of debt. These resolutions had mustered wide support.

The matter was discussed in the third Board session in January-February 1966 when representatives of both developed and developing countries stressed the need for more assistance on concessional terms. In this connection, the representatives of some developing countries referred to the Horowitz proposal as a concrete means of attaining this objective. No formal resolution was proposed.^{2/}

g. The Horowitz Proposal

The Conference had adopted without dissent Recommendation A.IV.11 requesting the IBRD to prepare a study on a scheme for increasing capital flows to developing countries through an interest equalization fund.

^{1/} As shown in Table 6 in OECD, Development Assistance Efforts and Policies 1966 Review, (Paris, 1966) the flow of official financial resources as a percentage of national income has progressively decreased from 0.74 per cent in 1962 to 0.61 per cent in 1965. However, if one takes also into account the flow of private capital, the percentage has remained stable at about 1 per cent of national income.

^{2/} In the meantime, on July 23, 1965 the Development Assistance Committee of the OECD had adopted a recommendation on financial terms and conditions which refers in its preamble to Recommendation A.IV.1 of the Conference. The OECD text has provisions on the recognition of circumstances of individual recipient countries, harmonization of terms in particular developing countries, general softening of financial terms, aid tying, need for non-project assistance and local cost financing, need for adopting legislative, institutional and budgetary provisions and regular review of implementation. (See OECD, Development Assistance Efforts and Policies, 1965 Review (Paris, 1965) p. 117.)

The Bank report was discussed in December 1965 by the Committee on Invisibles and Financing Related to Trade which decided to convene a group of experts to consider the economic and financial problems involved in the Horowitz Proposal. The group met in April 1966 in New York and reported to the Secretary-General of UNCTAD: see TD/B/C.3/23.

The matter is now on the agenda of the April 1967 meeting of the Committee on Invisibles and Financing Related to Trade.

h. Suppliers' credit

Recommendation A.IV.14 on "Suppliers' credit and credit insurance in developed and developing countries" had been adopted by the Conference without dissent. It requested the IBRD to make a study of suppliers' credit and credit insurance, and to submit the study to the United Nations. A paper entitled "Suppliers' Credits from Industrialized and Developing Countries" was recently issued by the IBRD.

7. East-West Trade

Owing to lack of time the Conference had decided to leave to the Trade and Development Board the responsibility for further consideration and action on problems arising out of trade relations between countries having different economic and social systems. The Board considered these problems in its second and third sessions. The socialist countries of Eastern Europe did not succeed in mustering sufficient support for a recommendation on this topic, and some representatives of Group B countries argued that this matter fell within the competence of the UN Economic Commission for Europe. It was finally decided that the Secretary-General of UNCTAD should prepare periodic reports on these problems, paying particular attention to the trade interests of developing countries.

8. Work program for 1967 and preparation for the Second Conference

As mentioned, the UN General Assembly has decided that the second session of the United Nations Conference on Trade and Development should be held in New Delhi from February 1 to March 25, 1968. The Trade and Development Board, which will act as a preparatory committee for the Conference, met in New York on December 21 to revise its calendar of meetings for 1967.^{1/} Committee meetings were moved to a later date and were more evenly distributed within the year in order to enable the committees to carry out more effectively their functions as preparatory committees to the Board for the Conference. In addition to the work involved in preparing the coming Conference, the Trade and Development Board and its committees will be occupied in bringing to a conclusion work undertaken since the inception of UNCTAD and in taking stock of achievements to date. Provision is also made in the revised schedule of meetings for two commodity conferences on cocoa and sugar.

^{1/} See Appendix XII for the calendar of meetings adopted for 1967.

IV. Appendices

- I. Selected reports on UNCTAD issued to the Executive Board.
- II. Resolution of ECOSOC deciding to convene the Conference--Resolution 917(XXXIV) of August 2, 1962.
- III. Resolution of the UN General Assembly establishing UNCTAD--Resolution 1995(XIX) of December 30, 1964.
- IV. Composition of Groups A, B, C, and D in UNCTAD.
- V. Organizational Chart of the UNCTAD.
- VI. Composition of the Group of Experts on International Monetary Issues.
- VII. Studies requested by the Intergovernmental Group on Supplementary Financing at its session of October 1966.
- VIII. Memorandum of Developing Countries on the implementation of the recommendations of the First Conference.
- IX. Resolution of the General Assembly on International Monetary Reform (December 17, 1966).
- X. Resolution of the General Assembly on the Second Session of the Conference (December 17, 1966).
- XI. Meetings held by UNCTAD Bodies or under UNCTAD auspices up to the end of December, 1966.
- XII. Calendar of UNCTAD Meetings for 1967.

Selected Reports Issued to the Executive Board^{1/}

No.	Title	Date
SM/64/40	UN Conference on Trade and Development	May 4, 1964
SM/64/54	" " "	June 10, 1964
SM/64/71	" " "	July 23, 1964
SM/65/40	Report on the First Session of the UN Trade and Development Board	May 13, 1965
SM/65/81	Report on the Second Session of the UN Trade and Development Board	Sept. 24, 1965
SM/66/3	UNCTAD - Report on the First Session of the Committee on Invisibles and Financing Related to Trade	Jan. 7, 1966
EED/66/42	Report of UNCTAD Committee on Invisibles and Financing Related to Trade	Mar. 11, 1966
SM/66/38	Report on the Third Session of the Trade and Development Board, and Special Session of Committee on Invisibles and Financing related to Trade	Mar. 24, 1966
SM/66/55 and Sup. 1	UNCTAD Committee on Invisibles and Financing Related to Trade - Report on Resumed First Session	May 2 and 20, 1966
SM/66/112	UNCTAD Intergovernmental Group on Supplementary Financing - Report by Fund Observers	Nov. 3, 1966
SM/66/116	Report on the Fourth Session on the UN Trade and Development Board	Nov. 4, 1966

^{1/} This list is not meant to be comprehensive.

1. The Economic and Social Council Decides
to Convene the Conference

On 3 August 1962, the Economic and Social Council of the United Nations, at its 34th session, by its resolution 917 (XXXIV), convened a United Nations Conference on Trade and Development, and decided that its agenda and documentation should be considered by a Preparatory Committee.

Below is the full text of this resolution:

The Economic and Social Council,

Recalling General Assembly resolution 1707 (XVI) on international trade as the primary instrument for economic development,

Further recalling General Assembly resolutions 623 (VII), 1028 (XI), 1322, 1324 (XIII), 1421 (XIV), 1422 (XIV), 1519 (XV) and 1520 (XV).

Proceeding from the aims of the "United Nations Development Decade" in which both the developed and the less developed countries are to intensify their efforts in order to ensure a self-sustaining growth of the economics of the individual nations so as to attain in the developing countries, by 1970, a minimum annual rate of growth of the aggregate national income of 5 per cent,

Recognizing the importance of the economic development particularly of the less developed countries for the stability of the world economy and the maintenance of international peace and security,

Noting the difficulties which hamper the development of international trade in general and trade among less developed countries and industrially developed countries in particular,

Bearing in mind the vital importance of the rapid growth of exports and export earnings of developing countries, of primary products and manufactures, for promoting their economic development,

Recognizing that the developing countries have in recent years suffered from the drop in prices of primary products and the worsening of their terms of trade with industrialized

countries and that the losses arising therefrom have hampered and delayed the implementation of their long-term development programmes and that measures to import stability in international commodity markets at remunerative levels are vital for the development of less developed countries,

Considering the importance of all countries and all regional and sub-regional economic groupings pursuing trade policies designed to facilitate the necessary expansion of trade of developing countries and encouraging the indispensable growth of their economies,

Bearing in mind the importance of increasing the net inflow of long-term capital to developing countries and improving its terms and conditions so as to take account of their special requirements and problems,

Noting the Declaration on promotion of trade of less developed countries and the proposed programme of action of the last Ministerial meeting of the contracting parties to the General Agreement on Tariffs and Trade in November 1961 and expressing the hope that significant progress will continue to be made in implementing the above programme of action,

Considering the numerous replies of the Governments of Member States to the questionnaire of the Secretary-General on the desirability of convening an international conference on international trade problems relating particularly to commodity markets and on the agenda of such a conference,

1. Resolves to convene a United Nations Conference on Trade and Development;

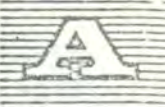
2. Decides to convene, by the early spring of 1963, a Preparatory Committee consisting of expert representatives designated, not later than November 1962, by Governments represented on the Council to consider the agenda and documentation for the Conference with particular reference to the problems of the developing countries;

3. Requests the Secretary-General, with the assistance of the regional economic commissions, the specialized agencies and other related international organizations concerned with international trade such as the International

Monetary Fund, the General Agreement on Tariffs and Trade and the International Bank for Reconstruction and Development, to prepare, for consideration by the Preparatory Committee, appropriate documentation and proposals for such a Conference;

4. Requests further the Preparatory Committee to submit its report in time for consideration by the Council at its thirty-sixth session.

1236th plenary meeting,
3 August 1962.



UNITED NATIONS
GENERAL
ASSEMBLY



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A/RES/1995 (XIX)
8 January 1965

Nineteenth session

RESOLUTION ADOPTED BY THE GENERAL ASSEMBLY

1995 (XIX). Establishment of the United Nations Conference on Trade and Development as an organ of the General Assembly*

The General Assembly,

Convinced that sustained efforts are necessary to raise the standards of living in all countries and to accelerate the economic growth of the developing countries,

Considering that international trade is an important instrument for economic development,

Recognizing that the United Nations Conference on Trade and Development has provided a unique opportunity to make a comprehensive review of the problems of trade and of trade in relation to economic development, particularly those problems affecting the developing countries,

Convinced that adequate and effectively functioning organizational arrangements are essential if the full contribution of international trade to the accelerated economic growth of the developing countries is to be successfully realized through the formulation and implementation of the necessary policies,

Taking into account that the operation of existing international institutions was examined by the United Nations Conference on Trade and Development, which recognized both their contributions and their limitations in dealing with all the problems of trade and related problems of development,

Believing that all States participating in the United Nations Conference on Trade and Development should make the most effective use of institutions and arrangements to which they are or may become parties,

* Item 32 of the provisional agenda.

Convinced that, at the same time, there should be a further review of both the present and the proposed institutional arrangements, in the light of the experience of their work and activities,

Taking note of the widespread desire among developing countries for a comprehensive trade organization,

Recognizing that further institutional arrangements are necessary in order to continue the work initiated by the Conference and to implement its recommendations and conclusions,

I

Establishes the United Nations Conference on Trade and Development as an organ of the General Assembly in accordance with the provisions set forth in section II below;

II

1. The members of the United Nations Conference on Trade and Development (hereinafter referred to as the Conference) shall be those States which are Members of the United Nations or members of the specialized agencies or of the International Atomic Energy Agency.

2. The Conference shall be convened at intervals of not more than three years. The General Assembly shall determine the date and location of the sessions of the Conference, taking into account the recommendations of the Conference or of the Trade and Development Board, established under paragraph 4 below.

3. The principal functions of the Conference shall be:

(a) To promote international trade, especially with a view to accelerating economic development, particularly trade between countries at different stages of development, between developing countries and between countries with different systems of economic and social organization, taking into account the functions performed by existing international organizations;

(b) To formulate principles and policies on international trade and related problems of economic development;

(c) To make proposals for putting the said principles and policies into effect and to take such other steps within its competence as may be relevant to this end, having regard to differences in economic systems and stages of development;

(d) Generally, to review and facilitate the co-ordination of activities of other institutions within the United Nations system in the field of international trade and related problems of economic development, and in this regard to co-operate with the General Assembly and the Economic and Social Council with respect to the performance of their responsibilities for co-ordination under the Charter of the United Nations;

(e) To initiate action, where appropriate, in co-operation with the competent organs of the United Nations for the negotiation and adoption of multilateral legal instruments in the field of trade, with due regard to the adequacy of existing organs of negotiation and without duplication of their activities;

(f) To be available as a centre for harmonizing the trade and related development policies of Governments and regional economic groupings in pursuance of Article 1 of the Charter;

(g) To deal with any other matters within the scope of its competence.

TRADE AND DEVELOPMENT BOARD

Composition

4. A permanent organ of the Conference, the Trade and Development Board (hereinafter referred to as the Board), shall be established as part of the United Nations machinery in the economic field.

5. The Board shall consist of fifty-five members elected by the Conference from among its membership. In electing the members of the Board, the Conference shall have full regard for both equitable geographical distribution and the desirability of continuing representation for the principal trading States, and shall accordingly observe the following distribution of seats:

(a) Twenty-two from the States listed in part A of the annex to the present resolution;

(b) Eighteen from the States listed in part B of the annex;

(c) Nine from the States listed in part C of the annex;

(d) Six from the States listed in part D of the annex.

6. The lists of States contained in the annex shall be reviewed periodically by the Conference in the light of changes in membership of the Conference and other factors.

7. The members of the Board shall be elected at each regular session of the Conference. They shall hold office until the election of their successors.

8. Retiring members shall be eligible for re-election.

9. Each member of the Board shall have one representative with such alternates and advisers as may be required.

10. The Board shall invite any member of the Conference to participate, without vote, in its deliberations on any matter of particular concern to that member.

11. The Board may make arrangements for representatives of the inter-governmental bodies referred to in paragraphs 18 and 19 below to participate, without vote, in its deliberations and in those of the subsidiary bodies and working groups established by it. Such participation may also be offered to non-governmental organizations concerned with matters of trade and of trade as related to development.

12. The Board shall adopt its own rules of procedure.

13. The Board shall meet as required in accordance with its rules. It shall normally meet twice in any particular year.

Functions

14. When the Conference is not in session, the Board shall carry out the functions that fall within the competence of the Conference.

15. In particular, the Board shall keep under review and take appropriate action within its competence for the implementation of the recommendations, declarations, resolutions and other decisions of the Conference and to ensure the continuity of its work.

16. The Board may make or initiate studies and reports in the field of trade and related problems of development.

17. The Board may request the Secretary-General of the United Nations to prepare such reports, studies or other documents as it may deem appropriate.

18. The Board shall, as required, make arrangements to obtain reports from and establish links with inter-governmental bodies whose activities are relevant to its functions. In order to avoid duplication it shall avail itself, whenever possible, of the relevant reports made to the Economic and Social Council and other United Nations bodies.

19. The Board shall establish close and continuous links with the regional economic commissions of the United Nations and it may establish such links with other relevant regional inter-governmental bodies.

20. In its relations with organs and agencies within the United Nations system, the Board shall act in conformity with the responsibilities of the Economic and Social Council under the Charter, particularly those of co-ordination, and with the relationship agreements with the agencies concerned.

21. The Board shall serve as a preparatory committee for future sessions of the Conference. To that end, it shall initiate the preparation of documents, including a provisional agenda, for consideration by the Conference, as well as make recommendations as to the appropriate date and place for its convening.

22. The Board shall report to the Conference and it shall also report annually on its activities to the General Assembly through the Economic and Social Council. The Council may transmit to the Assembly such comments on the reports as it may deem necessary.

23. The Board shall establish such subsidiary organs as may be necessary to the effective discharge of its functions. It shall establish, in particular, the following committees:

(a) A committee on commodities which, inter alia, will carry out the functions which are now performed by the Commission on International Commodity Trade and the Interim Co-ordinating Committee for International Commodity Arrangements. In this connexion, the Interim Co-ordinating Committee shall be maintained as an advisory body of the Board;

(b) A committee on manufactures;

(c) A committee on invisibles and financing related to trade. The Board shall give special consideration to the appropriate institutional means for dealing with problems of shipping, and shall take into account the recommendations contained in annexes A.IV.21 and A.IV.22 of the Final Act of the Conference.^{1/}

^{1/} See Proceedings of the United Nations Conference on Trade and Development, Vol. I, Final Act and Report (United Nations publication, Sales No.: 64.II.B.11).

The terms of reference of the latter two subsidiary bodies and any other subsidiary organs established by the Board shall be adopted after consultation with the appropriate organs of the United Nations and shall take fully into account the desirability of avoiding duplication and overlapping of responsibilities. In determining the size of the subsidiary organs and in electing their members, the Board shall take fully into account the desirability of including in the membership of these bodies member States with a special interest in the subject-matter to be dealt with by them. It may include any State member of the Conference, whether or not that State is represented on the Board. The Board will determine the terms of reference and rules of procedure of its subsidiary organs.

VOTING

24. Each State represented at the Conference shall have one vote. Decisions of the Conference on matters of substance shall be taken by a two-thirds majority of the representatives present and voting. Decisions of the Conference on matters of procedure shall be taken by a majority of the representatives present and voting. Decisions of the Board shall be taken by a simple majority of the representatives present and voting.

PROCEDURES

25. The procedures set forth in the present paragraph are designed to provide a process of conciliation to take place before voting and to provide an adequate basis for the adoption of recommendations with regard to proposals of a specific nature for action substantially affecting the economic or financial interests of particular countries.

(a) Levels of conciliation

The process of conciliation within the meaning of the present paragraph may take place under the conditions stated with regard to proposals which are before the Conference, the Board or Committees of the Board. In the case of Committees of the Board, the process of conciliation shall apply only to those matters, if any, with respect to which a Committee has been authorized to submit, without further approval, recommendations for action.

/...

(b) Request for conciliation

A request for conciliation within the meaning of the present paragraph may be made:

- (i) In the case of proposals before the Conference, by at least ten members of the Conference;
- (ii) In the case of proposals before the Board, by at least five members of the Conference, whether or not they are members of the Board;
- (iii) In the case of proposals before Committees of the Board, by three members of the Committee.

The request for conciliation under the present paragraph shall be submitted, as appropriate, to the President of the Conference or to the Chairman of the Board. In the case of a request relating to a proposal before a Committee of the Board, the Chairman of the Committee concerned shall submit the request to the Chairman of the Board.

(c) Initiation of conciliation by the President or Chairman

The process of conciliation within the meaning of the present paragraph may also be initiated whenever the President of the Conference, the Chairman of the Board or the Chairman of the Committee concerned is satisfied that the required number of countries as specified in sub-paragraph (b) above are in favour of such conciliation. In cases where the process of conciliation is initiated at the level of a Committee, the Chairman of the Committee concerned shall refer the matter to the Chairman of the Board for action to be taken in accordance with sub-paragraph (f) below.

(d) Time for request or initiation of conciliation

The request for conciliation (or the initiation of conciliation by the President or the Chairman, as the case may be) may be made only after the debate on the proposal has been concluded within the organ concerned and prior to the vote on that proposal. For the purposes of this provision, the Chairman of the organ concerned shall, at the conclusion of the debate on any proposal, afford an appropriate interval for the submission of requests for conciliation before

proceeding to the vote on the proposal in question. In the event that conciliation is requested or initiated, voting on the proposal in question shall be suspended and the procedures provided for below shall be followed.

(e) Subjects in regard to which conciliation is appropriate or excluded

The institution of the process of conciliation shall be automatic under the conditions stated in sub-paragraphs (b) and (c) above. The categories in (i) and (ii) below shall serve as guidelines:

- (i) Appropriate for conciliation shall be proposals of a specific nature for action substantially affecting the economic or financial interests of particular countries in the following fields:

Economic plans or programmes or economic or social readjustments;
Trade, monetary or tariff policies, or balance of payments;
Policies of economic assistance or transfer of resources;
Levels of employment, income, revenue or investment;
Rights or obligations under international agreements or treaties.

- (ii) Proposals in the following fields shall not require conciliation:

Any procedural matter;
Any proposal for study or investigation, including such proposals related to the preparation of legal instruments in the field of trade;
Establishment of subsidiary bodies of the Board within the scope of its competence;
Recommendations and declarations of a general character not calling for specific action;
Proposals involving action proposed in pursuance of recommendations which were unanimously adopted by the Conference.

(f) Nomination of a conciliation committee

When a request for conciliation is made or initiated, the presiding officer of the organ concerned shall immediately inform the organ. The President of the Conference or the Chairman of the Board shall, as soon as possible, after consultation with the members of the organ concerned, nominate the members of a conciliation committee and submit the nominations for the approval of the Conference or the Board, as appropriate.

(g) Size and composition of the conciliation committee

The conciliation committee shall, as a rule, be small in size. Its members shall include countries especially interested in the matter with respect to which such conciliation was initiated and shall be selected on an equitable geographical basis.

(h) Procedure within the conciliation committee and submission of its report

The conciliation committee shall begin its work as soon as possible and it shall endeavour to reach agreement during the same session of the Conference or the Board. No vote shall take place in the conciliation committee. In the event that the conciliation committee is unable to conclude its work or fails to reach agreement at the same session of the Conference or the Board, it shall report to the next session of the Board or to the next session of the Conference, whichever meets earlier. However, the Conference may instruct the conciliation committee appointed by it to submit its report to the following session of the Conference in the event that the committee shall not have concluded its work or shall have failed to reach agreement during the same session of the Conference.

(i) Extension of the mandate of the conciliation committee

A proposal to continue a conciliation committee beyond the session at which it is required to report shall be decided by a simple majority.

(j) Report of the conciliation committee

The report of the conciliation committee shall indicate whether or not the committee was able to reach an agreement and whether or not the committee recommends a further period of conciliation. The report of the committee shall be made available to the members of the Conference.

(k) Action on the report of the conciliation committee

The report of the conciliation committee shall have priority on the agenda of the organ to which it is submitted. If the organ adopts a resolution on the proposal which was the subject of the report of the conciliation committee, that

resolution shall refer explicitly to the report of the conciliation committee and to the conclusion reached by the conciliation committee in the following form, as appropriate:

"Noting the report of the Conciliation Committee appointed on (date) (document number),

"Noting also that the Conciliation Committee was able to reach an agreement / recommends a further period of conciliation / was unable to reach agreement,"

(1) Reports of the Board and the Conference

The reports of the Board to the Conference and to the General Assembly and the reports of the Conference to the Assembly shall include, inter alia:

- (i) The texts of all recommendations, resolutions and declarations adopted by the Board or the Conference during the period covered by the report;
- (ii) In respect of recommendations and resolutions which are adopted after a process of conciliation, there shall also be included a record of the voting on each recommendation or resolution, together with the texts of the reports of the conciliation committees concerned. In the report, the record of voting and the texts of the reports shall normally follow the resolutions to which they pertain.

(m) Good offices of the Secretary-General of the Conference

The good offices of the Secretary-General of the Conference shall be utilized as fully as practicable in connexion with the process of conciliation.

(n) Proposals involving changes in the fundamental provisions of the present resolution

A process of conciliation shall also be applied under the terms and conditions laid down above in regard to any proposal for a recommendation to the General Assembly which would involve changes in the fundamental provisions of the present resolution. Any question as to whether a particular provision shall be considered fundamental for the purposes of the present sub-paragraph shall be determined by a simple majority of the Conference or the Board.

/...

SECRETARIAT

26. Arrangements shall be made, in accordance with Article 101 of the Charter, for the immediate establishment of an adequate, permanent and full-time secretariat within the United Nations Secretariat for the proper servicing of the Conference, the Board and its subsidiary bodies.

27. The secretariat shall be headed by the Secretary-General of the Conference, who shall be appointed by the Secretary-General of the United Nations and confirmed by the General Assembly.

28. Adequate arrangements shall be made by the Secretary-General of the United Nations for close co-operation and co-ordination between the secretariat of the Conference and the Department of Economic and Social Affairs, including the secretariats of the regional economic commissions and other appropriate units of the United Nations Secretariat as well as with the secretariats of the specialized agencies.

FINANCIAL ARRANGEMENTS

29. The expenses of the Conference, its subsidiary bodies and secretariat shall be borne by the regular budget of the United Nations, which shall include a separate budgetary provision for such expenses. In accordance with the practice followed by the United Nations in similar cases, arrangements shall be made for assessments on States not members of the United Nations which participate in the Conference.

FUTURE INSTITUTIONAL ARRANGEMENTS

30. The Conference will review, in the light of experience, the effectiveness and further evolution of institutional arrangements with a view to recommending such changes and improvements as might be necessary.

31. To this end it will study all relevant subjects, including matters relating to the establishment of a comprehensive organization based on the entire membership of the United Nations system of organizations to deal with trade and with trade in relation to development.

32. The General Assembly expresses its intention to seek advice from the Conference before making changes in the fundamental provisions of the present resolution.

List of States in Group A

Afghanistan	Malaysia
Algeria	Mali
Burma	Mauritania
Burundi	Mongolia
Cambodia	Morocco
Cameroon	Nepal
Central African Republic	Niger
Ceylon	Nigeria
Chad	Pakistan
China	Philippines
Congo (Brazzaville)	Republic of Korea
Congo (Democratic Republic of)	Republic of Viet-Nam
Dahomey	Rwanda
Ethiopia	Saudi Arabia
Gabon	Senegal
Ghana	Sierra Leone
Guinea	Somalia
India	South Africa
Indonesia	Sudan
Iran	Syria
Iraq	Thailand
Israel	Togo
Ivory Coast	Tunisia
Jordan	Uganda
Kenya	United Arab Republic
Kuwait	United Republic of Tanzania
Laos	Upper Volta
Lebanon	Western Samoa
Liberia	Yemen
Libya	Yugoslavia
Madagascar	

List of States in Group B

Australia
Austria
Belgium
Canada
Cyprus
Denmark
Federal Republic of Germany
Finland
France
Greece
Holy See
Iceland
Ireland
Italy
Japan
Liechtenstein
Luxembourg
Monaco
Netherlands
New Zealand
Norway
Portugal
San Marino
Spain
Sweden
Switzerland
Turkey
United Kingdom of Great Britain
and Northern Ireland
United States of America

/...

List of States in Group C

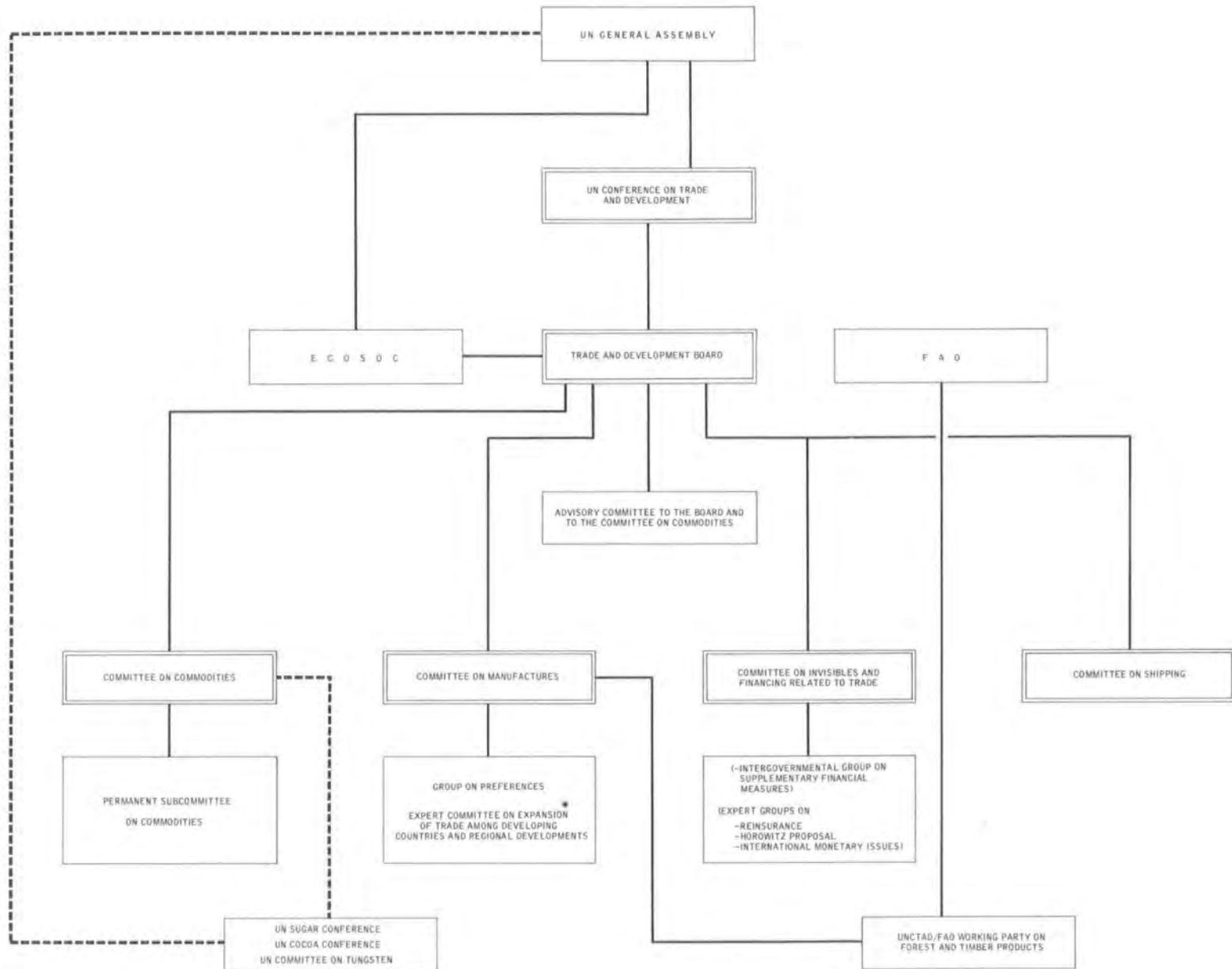
Argentina
Bolivia
Brazil
Chile
Colombia
Costa Rica
Cuba
Dominican Republic
Ecuador
El Salvador
Guatemala
Haiti
Honduras
Jamaica
Mexico
Nicaragua
Panama
Paraguay
Peru
Trinidad and Tobago
Uruguay
Venezuela

List of States in Group D

Albania
Bulgaria
Byelorussian Soviet Socialist Republic
Czechoslovakia
Hungary
Poland
Romania
Ukrainian Soviet Socialist Republic
Union of Soviet Socialist Republics

UNCTAD

ORGANIZATION CHART



UNCTAD

Composition of the Group of Experts on
International Monetary Issues

The members of the group originally appointed were:

V. S. Alkhimov, Head, Foreign Currency Department, Ministry of Foreign Trade of the USSR.

Gamani Corea, Permanent Secretary, Ministry of National Planning and Economic Affairs, Ceylon.

Octavio A. Dias Carneiro, formerly Chief of Economic Department of the Foreign Ministry, Brazil.

Jorge González del Valle, Alternate Executive Director, International Monetary Fund.

Julius Hajek, Director of the Foreign Exchange Department of the Ministry of Finance, Czechoslovakia, and Associate Member of the Prague Research Institute of Finance.

Lord Kahn, Fellow of King's College and Professor of Economics in the University of Cambridge, England.

Amon Nikoi, Executive Director, International Monetary Fund.

I. G. Patel, Chief Economic Adviser, Ministry of Finance, India.

Pierre Sanner, Director of Studies, Banque Centrale des Etats de l'Afrique de l'Ouest;

Tibor Scitovsky, Professor of Economics, University of California.

T. W. Swan, Professor of Economics, Research School of Social Sciences, Australian National University.

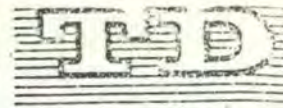
Owing to the inability of Dr. I. G. Patel to be present throughout the group's meetings, K. N. Raj, Professor of Monetary Economics, Delhi School of Economics, University of Delhi, was appointed as an additional member.

UNCTAD Intergovernmental Group on Supplementary Financing

Studies Requested by the Group ^{1/}

1. The relative importance of export shortfalls and other causes of instability in the external financing of development and, to the extent possible, estimates of the effects of these causes on selected countries.
2. The Group invites the Bank and the Fund to communicate to the Group any views they may feel able to express on how supplementary finance would fit into the existing international financial system.
3. A revision (to include data as recent as possible) of Table I, "Adequacy of External Liquidity to Finance Fluctuations in Exports of Some Fund Members" (page 19) of the study produced in 1963 by the International Monetary Fund "Compensatory Financing of Export Fluctuations."
4. A study of the differences between and the respective merits of the methods used for the determination of export shortfalls.
5. A presentation of the methods used by the Bank staff in arriving at its estimates of the annual cost of the Scheme (in quantitative terms).
6. An estimate of the effects of recent changes in the Fund's compensatory financing facility on the annual cost of the Scheme.

^{1/} First session October 1966.



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United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD
Fourth session
Agenda item 3

REVIEW OF THE IMPLEMENTATION OF THE RECOMMENDATIONS OF THE CONFERENCE

Memorandum on the implementation of the recommendations of the First United Nations Conference on Trade and Development Presented by the Group of 31 developing countries members of the Trade and Development Board^{1/}, to the members of the Board

1. The Review of the Implementation of the Recommendations of the First United Nations Conference on Trade and Development on the basis of the First Report of the Secretary-General has thrown into sharp relief the following, among other, facts relating to the economic growth and development of the developing countries:-

- (i) the economic growth rate of the developing countries at the mid-point of the Development Decade is only about 4% per annum and is well below the minimum 5% target for the Decade;
- (ii) the share of the developing countries in world trade has declined;
- (iii) the recommendations of the First Conference have not been implemented either adequately or in a concentrated manner and have so far resulted only in isolated and limited measures by individual countries;
- (iv) the tariff and non-tariff barriers in developed countries to exports of primary commodities, processed and semi-processed primary commodities, manufactures and semi-manufactures of the developing countries have substantially remained unchanged since the First Conference and in some cases have even been raised and tariff differential on primary and processed forms of these products existing at the time of the Conference

^{1/} Argentine, Bolivia, Brazil, Cameroon, Ceylon, Chile, Congo (Democratic Republic), Dahomey, Ecuador, El Salvador, Ethiopia, Ghana, Guinea, Honduras, India, Indonesia, Iran, Iraq, Lebanon, Madagascar, Mali, Mexico, Morocco, Nigeria, Pakistan, Philippines, United Arab Republic, United Republic of Tanzania, Uruguay and Yugoslavia

is being continued; thus failing to give the high priority recommended to the elimination or reduction of tariff and non-tariff barriers to the trade of developing countries.

- (v) the many intensive efforts to conclude an international commodity arrangement for Cocoa or to renew the international sugar agreement have not been successful although the two commodities have been identified as those in which the market situation gives rise to serious concern and requires priority attention;
- (vi) the developed countries still continue to take measures for stimulating uneconomic domestic agricultural production and competing natural products thus depriving developing countries of the opportunity to obtain a fair and reasonable share of world markets and the growth of these markets in these commodities;
- (vii) the system of general and non-discriminatory preference in favour of products from the developing countries has not been implemented. Only one developed country has partially responded to the proposal of developing countries;
- (viii) the flow of financial assistance from developed to the developing countries has levelled off in recent years and has declined from 0.85% of the national income of the developed countries in 1961 to 0.63% of the national income of these countries in 1964 thus delaying still further the realisation of the 1% target for the United Nations Development Decade;
- (ix) the heavy burden of debt servicing in developing countries has increased considerably and, in many cases, has reached grave proportions and accounts for a considerable part of the financial assistance these countries currently receive;
- (x) the terms and conditions of international financial assistance have, with very few exceptions, shown no marked improvement by lower interest rates and longer maturity periods to help alleviate the debt burden of developing countries as well as by untied assistance to make its utilisation more effective.

2. To strengthen further the international co-operation in trade and development which began so hopefully with the establishment of UNCTAD and to accelerate the rate of economic growth of the developing countries more intensive and concerted measures are needed to implement the recommendations of the First Conference. It is therefore, recommended that the developed countries should, as a short term programme of implementation, take immediate action between now and the opening of the Second Conference as follows:

- (i) urgent action to conclude international commodity arrangements on cocoa and sugar;
- (ii) strict observance of the standstill recommendation;
- (iii) the highest priority be given to the reduction or elimination of tariff and non-tariff barriers to the trade of products in their natural, semi-processed or processed form and in semi-manufactures and manufactures; such action should accord priority to products of interest to developing countries, and include the immediate application of tariff cuts on these products, and the consolidation of temporary suspensions on a permanent basis;
- (iv) an affirmation of the importance to the trade of developing countries of a scheme of general and non-discriminatory preferences and immediate action to co-operation in taking practical steps to institute such a scheme taking into account the existing transitory arrangements;
- (v) take positive measures to implement the Growth of Aid Recommendation and thus augment the flow of financial assistance to the developing countries up to the 1% target;
- (vi) immediate steps be taken to alleviate debt burdens of developing countries, and particularly of those countries where debt servicing accounts for a considerable proportion of the current inflow of foreign financial assistance by, in appropriate cases, re-scheduling these debts;

- (vii) instituting a system of non-project and untied loans at low interest rate with long period of maturity and where possible, interest free loans with long period of maturity;
- (viii) co-operating in formulating a practical scheme of supplementary Finance on the basis of the scheme worked out by the I.B.R.D. and taking into account the discussions in the Committee on Invisibles and Financing related to Trade.

3. The Secretary-General is requested to bring to the attention of the Committees established by the Trade and Development Board of UNCTAD the relevant sections of his Review on Implementation and the discussions on the Review at this Session of the Board so that these matters may be considered in detail by the Committees concerned and practical schemes be evolved to deal with the relevant problems and issues. Studies should be made on (i) tariff re-structuring (ii) structural adjustments (iii) assured offtakes (iv) growth and assistance targets for the 70's.

UNITED NATIONS

GENERAL ASSEMBLY

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8 December 1966

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Twenty-first session
SECOND COMMITTEE
Agenda item 37

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT:
REPORT OF THE TRADE AND DEVELOPMENT BOARD

Afghanistan, Algeria, Bolivia, Brazil, Burma, Cameroon, Ceylon, Chad, Chile, Dominican Republic, Ecuador, Ghana, Guinea, India, Indonesia, Iran, Iraq, Jordan, Kenya, Kuwait, Lebanon, Libya, Malaysia, Mali, Morocco, Nigeria, Pakistan, Peru, Philippines, Senegal, Sudan, Syria, Thailand, Trinidad and Tobago, Uganda, United Arab Republic, United Republic of Tanzania, Yugoslavia, and Zambia: revised draft resolution

International monetary reform

The General Assembly,

Taking note of the report of the Group of Experts on International Monetary Issues in the Developing Countries of the United Nations Conference on Trade and Development (TD/B/32) and the comments thereon by the members of the United Nations Conference on Trade and Development, including the Memorandum on International Liquidity presented by the developing countries to the Committee on Invisibles and Financing related to Trade of the United Nations Conference on Trade and Development at its special session in January-February 1966 (TD/B/57 and A/6351, part I),

Bearing in mind The Annual Report of the International Monetary Fund for 1966 (E/4282),

Recognizing the need for a reform of the international monetary system that would make it more responsive to the requirements of the economic growth of both developed and developing countries,

Noting the initiatives taken in promoting the informal meetings now being held between the Executive Directors of the International Monetary Fund and the deputies of the Governments participating in the General Arrangements to Borrow,

1. Endorses the need for both developed and developing countries which so desire to be fully represented in the discussions and decisions leading to any new international monetary reform arrangements including those relating to the problems of international liquidity, and to participate fully in the operation of such arrangements as may be made;

2. Requests the Secretary-General of the United Nations Conference on Trade and Development to consult with the Managing Director of the International Monetary Fund on the progress of activity relating to international monetary reform and to report to the Trade and Development Board at its fifth session through the Committee on Invisibles and Financing related to Trade.

This draft resolution was adopted on December 17 by the General Assembly.

UNITED NATIONS

GENERAL ASSEMBLY

December 17, 1966

RESOLUTION

Second session of the United Nations Conference
on Trade and Development

The General Assembly,

Considering that the second session of the United Nations Conference on Trade and Development would provide a forum for the further examination of major issues of trade and development, including the consideration of further action for the implementation of the recommendations adopted at the first session,

Emphasizing the need for the Conference, at its second session, to concentrate in particular on a limited number of fundamental and specific subjects with a view to achieving practical and concrete results by means of negotiation aimed at securing the greatest measure of agreement,

Stressing the need for adequate preparatory work to ensure the success of the second session of the Conference,

Expressing the hope that the preparation for the second session of the Conference will result in new and determined efforts on the part of all States members of the Conference to achieve substantial progress both in the implementation and in the further elaboration of international policy for development,

Noting with interest the recommendation of the Conference of Heads of States and Governments of the Organization of African Unity at its third session, held at Addis Ababa from 5 to 9 November 1966, that a meeting of the developing countries should be held at the ministerial level to prepare for their participation in the second session of the United Nations Conference on Trade and Development,

1. Decides to convene the second session of the United Nations Conference on Trade and Development at New Delhi from 1 February to 25 March 1968;

2. Calls upon the Trade and Development Board and its subsidiary bodies to take into account the objectives outlined in the first three paragraphs of the preamble of the present resolution in their prepara-

tions for the second session of the Conference, and to attempt to identify the issues on which preparatory work would have progressed sufficiently to enable specific programmes of action to be drawn up at the Conference by means of negotiation aimed at securing the greatest possible measure of agreement;

3. Urges the Governments of the States members of the Conference to ensure effective participation in the Conference and to exert maximum efforts, both in their preparations for the Conference and during its deliberations, to ensure the success of the Conference, bearing in mind the objectives referred to above;

4. Invites the specialized agencies, the International Atomic Energy Agency, the United Nations Development Programme, the United Nations Industrial Development Organization, the regional economic commissions and the Economic and Social Office in Beirut to pay special attention, in their programmes, to preparations for the second session of the Conference and to take such steps as may be feasible to extend their full co-operation in ensuring its success;

5. Requests the Secretary-General of the Conference to begin forthwith the preparatory work for the second session in the light of the guidance given by the Trade and Development Board and its subsidiary bodies, which will meet in the interim, in co-operation wherever possible with the regional economic commissions, the Economic and Social Office in Beirut and appropriate international organizations.

Source: UN General Assembly
A/6567/Add.1

Meetings held by UNCTAD Bodies or
under UNCTAD Auspices up to the end of December 1966

1964

United Nations Conference on Trade and Development	March 23 - June 16	Geneva
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1965

Trade and Development Board first session	April 5 - April 30	New York
Special Committee on Preferences	May 10 - May 28	New York
UN Ad Hoc Committee on Tungsten	May 11 - May 14	New York
UN Cocoa Conference -- Working Party on Prices and Quotas	June 21 - June 25	New York
Special Working Group of the International Lead and Zinc Study Group	June 28 - July 2	Geneva
Ad Hoc Working Party on Inter- national Organization of Commodity Trade	July 6 - July 13	Geneva
Committee on Commodities first session	July 19 - August 7	Geneva
Committee on Manufactures first session	August 10 - August 20	Geneva
Trade and Development Board second session	August 24 - September 15	Geneva
United Nations Sugar Conference	September 20 - October 15	Geneva
Expert Group on International Monetary Issues	October 11 - October 28	New York
United Nations Cocoa Conference (Working Party on Prices and Quotas)	October 18 - October 25	Geneva
International Lead and Zinc Study Group	October 25 - November 5	Tokyo

Trade and Development Board first special session	October 28 - October 29	New York
Committee on Shipping first session	November 8 - November 23	Geneva
Committee on Invisibles and Financing related to Trade first session	December 6 - December 22	Geneva

1966

UN Cocoa Conference -- Working Party on Prices and Quotas	January 10 - January 12	New York
Working Group of UN Committee on Tungsten	January 24 - January 28	New York
Trade and Development Board third session	January 25 - February 17	New York
Committee on Invisibles and Financing related to Trade special session	January 27 - February 4	New York
Expert Committee on Expansion of Trade Among Developing Countries and on Regional Development	February 16 - March 7	New York
Committee on Manufactures resumed first session	February 28 - March 8	Geneva
United Nations Sugar Conference consultative committee	March 7 - March 10	Geneva
United Nations Cocoa Conference Working Party on Prices and Quotas	March 14 - March 29	Geneva
Committee on Invisibles and Financing related to Trade resumed first session	April 13 - April 20	Geneva
Advisory Committee to the Board and to the Committee on Commodities	April 14 - April 20	Geneva

Expert Group on the Horowitz Proposal	April 18 - April 26	New York
United Nations Sugar Conference Consultative Committee second session	April 21 - April 29	Geneva
United Nations Cocoa Conference second session	May 23 - June 23	New York
United Nations Committee on Tungsten	June 7 - June 10	New York
Expert Group on International Monetary Issues second session	June 20 - July 1	New York
Permanent Sub-Committee on Commodities first session	June 27 - July 15	Geneva
Committee on Shipping special session	July 18 - July 22	Geneva
Group on Preferences first session	July 26 - August 12	Geneva
Trade and Development Board fourth session	August 30 - September 25	Geneva
Expert Group on Reinsurance first session	September 26 - October 8	Geneva
Advisory Committee to the Board and to the Committee on Commodities	Sept. 27 - Sept. 30	Geneva
Intergovernmental Group on Supplementary Financing first session	October 10 - October 14	Geneva
FAO/UNCTAD Working Party on Timber and Forest Products first session	October 31 - November 7	Geneva
Sugar Consultations	November 21 - November 26	Geneva
Multilateral Consultations on Cocoa	November 29 - December 7	New York
Trade and Development Board special session	December 21	New York

CALENDAR OF UNCTAD MEETINGS FOR 1967

	<u>Date</u>	<u>Duration</u>	<u>Location</u>
Intergovernmental Group on Supple- mentary Financing, second session	6-17 February	2 weeks	Geneva
Committee on Shipping, second session	21 Feb.-8 March	2 1/2 weeks	Geneva
Conference on Olive Oil	28 Mar.-1 April	1 week	Geneva
Committee on Invisi- bles and Financing related to Trade second session	4-19 April	2 1/2 weeks	New York
Permanent Sub- Committee on Commodities, resumed first session	9-12 May	1 week	Geneva
Committee on Commodi- ties, second session	9-26 May	3 weeks	Geneva
Group on Preferences, second session	4-14 July	2 weeks	Geneva
Committee on Manu- factures, second session	4-21 July	3 weeks	Geneva
Trade and Development Board, fifth session	15 Aug.-8 Sept.	4 weeks	Geneva
Advisory Committee to the Board and to the Committee on Commodities, second session	to be determined	2 weeks	To be deter- mined

	<u>Date</u>	<u>Duration</u>	<u>Location</u>
Permanent Group on Synthetics and Substitutes first session	to be determined	9 days	to be determined
Intergovernmental Group on Supple- mentary Financing, third session	to be determined	to be determined	to be determined
Consultation on Cocoa	to be determined	5 - 6 weeks	to be determined
Consultation on Sugar	to be determined	5 - 6 weeks	to be determined
Two Commodity Conferences	to be determined	5 - 6 weeks each	to be determined
Working Group on Tungsten	to be determined	1 week	to be determined
[Exploratory Meeting on Copper	to be determined		to be determined]
Eight Expert Groups	to be determined	2 weeks each	to be determined
Trade and Develop- ment Board, sixth session	to be determined**		to be determined*

1968

UNCTAD, second session	1 Feb.-25 March	7 weeks	New Delhi
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* These decisions will be made by the Trade and Development Board at its fifth session.

INTERNATIONAL MONETARY FUND

Mr. Friedman

With compliments.

Copies to:

Messrs. Kamarck, Sarma, Sundrum, Adams,
Frank, Macone and Jalan

March 6, 1967

J. Marcus Fleming

SM/67/26

March 1, 1967

To: Members of the Executive Board

From: The Secretary

Subject: UNCTAD Intergovernmental Group on Supplementary Financing:
Second Session

The attached report, prepared by the Fund observers, on the second session of the UNCTAD Intergovernmental Group on Supplementary Financing, Geneva, February 6 to 17, 1967, is circulated for the information of the Executive Directors.

Att: (1)

Other Distribution:
Department Heads
Division Chiefs

INTERNATIONAL MONETARY FUND

UNCTAD Intergovernmental Group on Supplementary Financing:
Second Session^{1/}

Report by Fund Observers

March 1, 1967

The second session of the Group was held in Geneva from February 6 to 17 inclusive. Mr. Mermolja, Yugoslavia, was elected chairman of the Group and Mr. Saxe (U.S.A.) vice-chairman and rapporteur. As at the first session, there were many observers from member countries of the UNCTAD as well as observers from the Fund, Bank and OECD. The Fund observers were Mr. Marcus Fleming, Mr. Edgar Jones and Mr. Asahiko Isobe. The Bank delegation of observers was led by Mr. Irving S. Friedman.

The Group discussions were based on a number of studies by the UNCTAD Secretariat, the Fund and Bank staffs. These studies are listed in Annex A. Initially, the discussions were a repetition of the arguments at the first session, but during the proceedings the representative of the Federal Republic of Germany introduced a paper containing a critique of the Bank scheme and an outline of a new system of supplementary financing of export shortfalls (Annex B). The Group was not inclined to accept the positive suggestions contained in the German paper, but the paper gave rise to a more pointed examination of the Bank staff scheme. Towards the end of the debate the member for France expressed a general criticism of that scheme as a whole.

General Attitude to the Scheme

The discussions, which were intensive, succeeded in identifying basic issues and clarifying differences of view on these issues. Since, however, members of the Group adopted varying attitudes on particular issues, it is difficult to judge country positions in regard to the scheme as a whole. However, the attitude of certain countries became much more clearly defined than at the first meeting of the Group. France and Germany showed themselves, particularly in the former case, to be opposed to basic features of the scheme. The United States remained noncommittal. Japan appeared more sceptical than at the first meeting. Both Sweden and the United Kingdom

^{1/} See SM/66/112 for details of membership, terms of reference, etc.

continued to support the scheme, though the latter emphasized the scheme's discretionary aspects and seemed willing to consider modification. The developing country members, notably the representatives of Ceylon, India and Brazil, were generally in support of the scheme though their comments on particular features showed a desire to make it more flexible, less extensive in scope and less conditional.

The Policy Package

There was a long debate on the policy package which was considered to be a crucial element in the Bank staff scheme. The debate showed wide differences of opinion on the content of the proposed package. Many members felt that there would be undue interference by the Agency in member country affairs, and that the policy package was too complex and comprehensive. Others considered that it should not go beyond the scope of the consultations which countries already undertake with international financial institutions. The member for Ceylon, bearing in mind policy considerations, suggested that the initial policy package, insofar as it was public, should specify only macroeconomic targets and that the country itself should decide which policies to follow in reaching these targets. The Bank observer and some others expressed sympathy with this view. India suggested that the agreed policy package should be related to the export sector only and that any other understandings should be arrived at in connection with the provision of basic finance. There were conflicting opinions on whether development programs and thus the initial policy prescriptions should be revised, and if so how, during the course of the planning period.

There were objections to the inclusion of monetary and financial policies in the package on the grounds that these matters were beyond the appropriate scope of the scheme. The representatives of the IBRD and IMF were asked for views on the policy package. The Fund observer made a statement which drew attention to some problems that might arise in applying the proposed policy package to matters of concern to the Fund (Annex C). The comprehensive replies given by the Bank observer to the various points raised were summarized in Conference Room Papers 27 and 39 (Annex D).

An important question raised during the discussions was under what circumstances a development program should be revised in the course of the planning period, and whether such revisions should include the over-all size of the program as well as a reallocation of resources among sectors.

Export Projections

There was considerable discussion on the reliability of export projections. The Bank observer said that the technique of export projections at the Bank in relation to development programs was constantly improving and the same methods could be applied to the supplementary financing scheme. Several representatives, however, expressed serious doubts about the dependability of export projections over a period of five years and, therefore, about their appropriateness as a basis for financial commitments. Some

members favored revisions of projections during the course of a development program to allow of greater degree of responsiveness to internal and external changes. A contrary view was that revisions would defeat the basic objective of the scheme.

Shortfalls and Overages

The difference between Fund and Bank methods of calculating shortfalls was clearly explained in an UNCTAD Secretariat paper. Its main conclusion was that no systematic relation could be made between the calculation of shortfalls for CFF purposes and SF purposes because the export norms of the two schemes were defined according to different objectives--the Fund aiming at stabilization of export earnings and the Bank at remedying the unpredictability of export earnings. It concluded, however, that the objectives of the two schemes were compatible. Asked to comment on the paper, the Fund representative made the observations contained in Conference Room Papers 15 and 20 (Annex E).

A change of some importance in the relationship between the two schemes is that the Bank staff now suggest that the supplementary financing scheme refinance repurchases on compensatory drawings to the extent that the latter have assisted in the financing of supplementary financing shortfalls.

The use of export overages under the supplementary financing scheme to offset export shortfalls within a projection period was criticized, especially but not exclusively, by members from developing countries. It was maintained that overages accumulated during the early years of a planning period might well be absorbed in meeting a drain on foreign exchange reserves arising on items other than exports, and might, therefore, not be available for offsetting later export shortfalls. It was said also that arrangements for the purpose of recapturing overages might require surveillance by the Agency of the foreign exchange policy and operations of the country concerned, and might encounter administrative difficulty. Several members from developing countries argued that overages should be used to increase investment or reconstitute reserves, thus strengthening the country against future shortfalls and reducing the cost of the scheme. It was pointed out also that UNCTAD recommendation A.IV.18 provided for long-term assistance, which requirement would not be met if such assistance was repaid out of overages.

Administration of the Scheme

The debate on this question was relatively short because most members of the Group felt its discussion to be premature. However, the Group reached the conclusion that the creation of a new Agency for the administration of the scheme would be unnecessary, uneconomic and create considerable complications, and that among the existing agencies the IBRD group, more specifically the IDA, would be the most appropriate. It was agreed also that the scheme should be administered in close cooperation with the IMF. It was further suggested that countries not members of the Fund or Bank should be eligible for membership and that the Group should seek legal advice on this question.

Cost of the Scheme

Although the Group had requested of the Bank staff at its first session a quantitative breakdown of the difference between the gross calculated shortfalls of \$1,600 million per annum and the net (of other sources of finance, including Fund drawings) figure of \$300 to \$400 million, no such breakdown had been received at the start of the session. The Bank observer argued that the figures were based on historical data and could be misleading in regard to future outlay. There was renewed pressure for a substantiation of the net cost to the scheme and the Bank delegation produced a breakdown for purposes of discussion but not for the record. The Bank representative regarded the figures as a safe cost basis on which to initiate the scheme's operation and some members of the Group agreed with this view. However, some questions were raised as to the assumptions behind the calculation as well as to the amount. It was generally agreed, even by members from less developed countries, that the scheme could not be an open-ended one, but must be based on a fixed sum acceptable to donor countries. It was recognized that this might entail rationing of available finance though doubts were expressed as to the feasibility of rationing.

Form and Terms of Assistance

It was generally agreed that there should be considerable flexibility in deciding on the form of assistance, i.e., whether it should go toward financing imports or development (the Bank staff study proposes that the choice should be left to the Agency). As regards the terms of assistance, it was left undecided as to whether it should be the same as for basic finance or more lenient or more stringent according to the causes and effects of a shortfall in exports below expectations.

Import Prices and Invisibles

There were renewed attempts to bring import prices into the formulation of a supplementary financing scheme so as to calculate export shortfalls in real terms. The impression gained from the discussion was that such an inclusion is unlikely to take place in any scheme of supplementary financing owing to the unreliability of basic data.

There seemed to be general agreement that the inclusion or exclusion of invisibles in export projections would depend on their significance in a country's balance of payments. The problem would probably be decided, therefore, on a country-by-country basis as suggested in the Bank staff study.

It is unlikely that import prices and invisibles will become a subject of discussion again in future meetings of the Group.

The German Note

In summary, the note submitted by the representative of the Federal Republic of Germany (Annex B) regards the Bank scheme as an open-ended scheme because compensation for export shortfalls would be virtually automatic once the requirements of the policy package had been complied with. Since export projections, especially for a period of up to six years, are unreliable, there would be no way of knowing what the magnitude of the shortfalls would be. Such projections, therefore, could not be made the basis for financial claims and commitments.

The note suggests a new procedure for meeting the problem of export shortfalls which aims at greater flexibility than the Bank staff supplementary financing scheme. It suggests a Joint Committee of the IMF and the Agency administering SF which would examine cases of export shortfall on an ad hoc basis, consider the performance of the country in question, and decide whether such cases should be referred to the Fund facility or to the Agency for supplementary financing. A limited fund for supplementary financing would be set up and the amount and terms of financing would be determined on the merits of each case.

The Group recognized that the note had been submitted in a constructive spirit and had helped to identify basic problems. A number of members found something to agree with in the critical parts of the report. Some members contended, however, that the note misinterpreted the Bank staff scheme, especially in stating that it was open-ended and automatic in character. Some criticized the discretion permitted to the Agency in the proposed German system. There was little support for the system of supplementary financing proposed in Part III of the note. The setting up of a new body to coordinate compensatory and supplementary financing was regarded as unrealistic and likely to entail legal difficulties. The Fund observer in referring to Part III, pointed out that the Fund's compensatory financing system was an already existing facility for short-term balance-of-payments assistance using Fund resources made available under its Articles of Agreement. It should not be assumed that the Executive Board of the Fund would be willing to share responsibility for the operation of such a facility. Moreover, since developing countries attached great importance to automaticity, he doubted that they would welcome the procedures contemplated in the German paper, which might involve a more elaborate scrutiny of applications for drawings than under the existing CF scheme.

The member for Germany, replying to the criticisms, reiterated the arguments advanced in Parts I and II of the note, adding that the policy package of the Bank scheme went far beyond what had been actually observed in the practices of existing financial institutions.

The French Attitude

The French statement, delivered with considerable vigor, attacked the supplementary financing scheme from a variety of angles. Being designed to compensate not declines in exports but deviations from "reasonable expectations," it embodied an inequitable principle of allocation of international assistance. It protected countries against unforeseen developments within projection periods at the cost of promoting undue rigidity in the economies of developing countries and thus necessitating abrupt adjustments between one projection period and the next. It covered only one of the many causes for which investment plans might fail, and there was no agreement to what extent financing should be made available to meet the original plan if other causes made the realization of that plan impossible or undesirable. The scheme could not be implemented without wide-ranging and burdensome surveillance of policies. In particular, the use of overages would necessitate control over policies on imports, reserve use, and exchange rates. On the other hand, without assurances from donor countries regarding basic as well as supplementary financing, the scheme would be hampered from the start. The trouble arose from an overambitious attempt to link export compensation with development, unlike the Fund's compensatory financing facility, which was logical in its conception of automatic compensation for fluctuations round a realistic trend. No clear methodology was provided for deciding how much of any disorganization of development plans should be imputed to a shortfall from projected exports. The scheme would lead to a redirection of, rather than an addition to, international assistance. Generally, it would be more realistic to step up the global amount of basic aid for development, and to introduce a system of stabilizing the prices of primary products.

As the statement was delivered late in the proceedings, there was little time for further debate.

Future Work

The Group agreed that no further studies should be requested and that it should concentrate at its next meeting on the basic issues which had emerged from the second session. These would require further consideration by members. It was agreed that tentatively the next session might be in June 1967, and a final decision on this date could be made during the course of the next session of the Committee on Invisibles and Financing Related to Trade to be held in New York next April. If no meeting were arranged for June, the earliest possible date for the Group to meet afterwards would be late October, given the UNCTAD timetable and the individual timetables of members of the Group.

ANNEX A

- TD/B/C.3/AC.3/5 A comparison of methods used for the calculation of export shortfalls in the IBRD staff scheme for supplementary finance and the revised IMF facility for compensatory finance - Note by the UNCTAD Secretariat
- TD/B/C.3/AC.3/6 The policy package of the supplementary finance scheme - Paper prepared by the staff of the International Bank for Reconstruction and Development
- TD/B/C.3/AC.3/7 Shortfalls and "overages" in the supplementary finance scheme - Paper prepared by the staff of the International Bank for Reconstruction and Development
- TD/B/C.3/AC.3/8 Supplementary finance: "Form and terms of assistance" - Paper prepared by the staff of the International Bank for Reconstruction and Development
- TD/B/C.3/AC.3/9 Information note by the UNCTAD Secretariat
- TD/B/C.3/AC.3/10 Adequacy of external liquidity - Tables submitted by the staff of the International Monetary Fund
- TD/B/C.3/AC.3/11 Export projections in the World Bank - Paper prepared by the staff of the International Bank for Reconstruction and Development
- TD/B/C.3/AC.3/12 The contribution of "invisibles" to foreign exchange earnings - Paper prepared by the staff of the International Bank for Reconstruction and Development
- TD/B/C.3/AC.3/13 Supplementary finance: Consideration of import prices - Paper prepared by staff of the International Bank for Reconstruction and Development

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TD/B/C.3/AC.3/Conf.Room Paper 16
7 February 1967

Original: ENGLISH

Trade and Development Board
Committee on Invisibles and Financing
related to Trade
Intergovernmental Group on
Supplementary Financing
Geneva, 6 February 1967

Supplementary financial measures

Note by the delegation of the Federal Republic of Germany

The Delegation of the Federal Republic of Germany to the Intergovernmental Group on Supplementary Financing followed with great attention the course of the deliberations of this Group at its October meeting last year and expressed, on that occasion, its views on a number of the problems which arise in connexion with the scheme for Supplementary Financial Measures proposed by the staff of the IBRD.

In the meantime, we have studied the problems before us anew in the light of what has been said by the participants in the first meeting of the Group. Since, as is well known to the members of this Group, we have certain doubts with regard to some of the salient aspects of the scheme proposed by the IBRD staff, we have considered the question whether one could not find other and, as we feel, more realistic ways of implementing recommendation A.IV.18. The result of these considerations which, of course, are still of a rather preliminary character, was that an attempt should be made to develop a scheme more closely along the lines already indicated in the recommendation itself and, in doing so, to avoid some of the complexities of the proposal of the staff of the IBRD.

We have tried to set out in this note the starting point of our deliberations, and - in part III - to lay down some thoughts about how a feasible solution could perhaps be found. We would be grateful if our note which we have formulated in a constructive spirit found the attention of members of the Group.

I.

1. The present discussion on supplementary financing is based on UNCTAD recommendation A.IV.18. This recommendation sets forth in rather general terms, yet with regard to some aspects in a quite distinct manner, a number of ideas as to how a scheme for supplementary financial measures could be instituted. The International Bank was asked to study the feasibility of a scheme on the basis of the objectives and principles embodied in the recommendation.

The study by the IBRD staff is now before us, and it is our task to discuss it thoroughly from all relevant points of view. The study proposes a highly elaborate and comprehensive scheme with many interesting features. All of us have paid it the tribute it deserves. Nevertheless, the proposed scheme raises many questions which up to now, in our opinion, are not yet answered, and there are serious doubts as to whether it can be carried out in practice.

2. It is important to note that with regard to some essential aspects of supplementary financing the IBRD staff proposes solutions or procedures which are not entirely the same as those which are outlined in recommendation A.IV.18. The authors of the scheme, apparently, thought it advisable to interpret some of the guidelines given in recommendation A.IV.18 rather extensively in order to arrive at a more comprehensive scheme, which was, of course, a legitimate approach. Nevertheless, it is interesting to list the points in which there are distinctions between the IBRD staff study and the guidelines given in the recommendation:

- (a) The recommendation provides that the scheme should normally be applicable after a developing country had had recourse to the International Monetary Fund after its compensatory financing facility.

The IBRD staff scheme contains no such close connexion between supplementary financing and IMF compensatory financing; recourse to the IMF is only a possibility.

- (b) The recommendation envisages, once a prima facie case has been established, an examination of all relevant economic circumstances in order to assess how far assistance from the scheme could be required and justified in order to help avoid disruption of development programmes.

The IBRD staff scheme provides for prior agreement between the country concerned and the Agency on export projections, on development programmes and policies, as well as on feasible adjustments. If the country acts within the framework of such agreement and if actual exports fall behind the agreed projections assistance could be granted quasi-automatically.

- (c) The recommendation sets forth that assistance could cover a substantial portion of any shortfall. This means, in our opinion, that the amount will be fixed according to the merits of each case and in the light of what financial resources are available.

The IBRD staff scheme envisages complete or nearly complete compensation (after adjustments have been taken as agreed upon) inasmuch as other sources of financing are not forthcoming.

- (d) The recommendation envisages that the resources for the scheme are prescribed in advance.

The IBRD staff scheme provides for open-end financial obligations of donor countries. The financial requirements of the scheme are determined by its working criteria and are, therefore, theoretically unlimited.

Certainly, there might be differences of opinion about the respective merits of the various features mentioned above. At any rate, it should be obvious that our comments on certain ideas, that have been introduced by the IBRD staff, do not imply any criticism of the basic concept of or a retreat from recommendation A.IV.18.

II.

The doubts we feel as to the feasibility of the Scheme proposed by the IBRD staff may be summed up as follows:

1. The basis of the scheme is determined by the agreed export projections. In our view, export forecasts for a period of up to six years cannot be made with any satisfactory degree of accuracy. This is due to the impossibility of making dependable forecasts on the situation of supply and demand for a multitude of products in a multitude of countries, as well as to the lack of reliable information and statistics. While it is certainly appropriate to use export forecasts as guidelines for development planning - forecasts which, of course, require continuous adjustment as circumstances change - it is not possible to make them the basis of valid financial claims and commitments. By the way, such rigid projections could, after some years, have lost any economic significance and any connexion with reality. They might, therefore, tend to lead to misallocation of valuable resources of the country concerned.

In addition, to base financial assistance upon deviations from export projections made long ago would have the strange consequence that a country whose export development had been forecast in a precise manner would receive nothing at all even if its exports were to fall dramatically, whereas a country whose export development was judged unduly optimistically would receive large amounts even if there were no really adverse movement in export earnings.

The basic idea of recommendation A.IV.18 is to give assistance to countries which experience export setbacks, as in the case of a natural disaster or a sudden deterioration of market conditions. We do not understand the recommendation to imply that its purpose is to establish a system of insurance against the uncertainties of projections. In our view, after a country has suffered a shortfall in exports by reasons beyond its control and has presented its case, the Agency must examine all relevant circumstances, and will surely be able to recognize and determine shortfalls as such - taking into account the development of export proceeds in the current and in the preceding years.

2. Another essential feature of the IBRD staff proposal is the policy package. Its basic concept is sound and constructive. However, the question is whether it is feasible. To conclude agreements of the scope envisaged in the study with perhaps 50 - 70 developing countries in any meaningful way would necessitate a

tremendous amount of work and, therefore, require a gigantic administrative machinery. In addition, it has to be considered by developing countries whether they would be prepared to bind themselves with regard to their economic and development policy to such a degree and for such a long period unless they were assured that supplementary financing would cover the whole or almost the whole of a possible shortfall. However, whether that assurance can be given must appear doubtful (see paragraph 5 below). And even if supplementary finance is forthcoming in a substantial way no guarantee could be given with regard to basic financing on which development financing must rely in the first place as far as external resources are concerned.

3. The degree of automaticity which is embodied in the IBRD staff study is questionable. If a country is assured of full or nearly full compensation its will to adjust - beyond the adjustments agreed upon in the policy package - to changing circumstances could be weakened. Efforts towards diversification might be impaired. In addition, there is a financial problem involved (see paragraph 5 below).
4. The IBRD staff scheme does not expressly provide for co-operation between the Fund facility for compensatory financing and supplementary financing. Admittedly, both schemes are defined in a somewhat different way and their basic purposes are not quite identical. However, it is obvious that they both try to give help to those countries which experience a shortfall in export receipts and therefore a shortfall in foreign exchange availabilities. It is only natural and indeed necessary to connect both schemes and to find a reasonable working arrangement between the two. The Bank representative has already, in the course of the October meeting, indicated a certain readiness to consider such a possibility.
5. Because of the quasi-automatic features of the scheme its financial requirements are, theoretically, unlimited. The financial estimates presented in the IBRD staff study are very global and based on uncertain assumptions. In particular, it is not known how exactly the authors of the study arrived at an annual figure of \$300 - 400 million, after having established by extrapolation of

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statistical data that the average annual shortfall would be of the order of \$1.2 billion, after deduction of IMF drawings and overages. It does not appear appropriate to base the cost estimate to a considerable extent on the assumption, as may perhaps have been done, that only a limited number of developing countries would participate in the Scheme. Clearly, it was intended by recommendation A.IV.18 that assistance should be given, in principle, to all developing countries which experience export shortfalls and meet the presuppositions set forth in the recommendation. Therefore, the amount needed would probably be much higher than the figure given in the study. By obvious reasons of sound budgetary principles there would be but few prospective donor countries, if any, able to subscribe to an open-end fund. However, if, on the other hand, the financial resources were limited to a fixed amount it would not be possible to implement a scheme so far-reaching and entailing quasi-automatic features.

III.

These difficulties involved in the IBRD staff scheme require careful examination. We doubt that they can be overcome. Therefore, we believe that a possible solution to this dilemma might be to go back to recommendation A.IV.18 and to try to work out a system complying more closely with its wording. Such a system would certainly be less elaborate but it might perhaps have the advantage of being realistic and feasible. The following ideas, which are not entirely new ones but are already embodied largely in the recommendation, are submitted for consideration by the members of this Group.

1. In accordance with what has been said above, a realistic plan ought to be based on the following principles:
 - (a) Adequate co-ordination between the compensatory financing facility of the IMF and the supplementary financing so that the latter truly "supplements" the existing facilities in cases where this is required. This means that normally supplementary financing should be used only after recourse to compensatory financing in the IMF. There would have to be a body co-ordinating the two institutions, the IMF and the Agency administering supplementary financing. It might be called the "Joint Committee". The Joint Committee would receive and consider applications both for compensatory and supplementary financing. In addition, the IBRD and IMF country studies and reports might conceivably be co-ordinated for the purposes of the scheme within that Committee.
 - (b) Careful examination of the shortfalls at the time they arise and of all relevant circumstances including performance of the country. Determination of amount and terms of assistance according to the merits of each case.
 - (c) Establishment of a limited fund on the basis of contributions by donor countries and, if possible, other resources. Administration by the Agency. This should be one of the existing institutions with wide experience and authority, preferably IBRD/IDA.
 - (d) Consultation between the country concerned and the Agency in order to make the necessary adjustments, to encourage diversification, and to facilitate the decision of the Agency to be taken at the time of the shortfall. These consultations could be largely based on the ones already conducted by IBRD/IDA.

2. The following procedure might be conceivable:
- (a) A country wishing to avail itself of the scheme undertakes to consult fairly regularly with the Agency about its development and economic policy.
 - (b) If, at some point of time, the country suffers a serious shortfall in its export proceeds it will approach the Joint Committee, of which the Agency and the IMF are members, and will present its case.
 - (c) The Joint Committee will examine the cause of the shortfall and in doing so analyse past export developments and their probable development in the future, as well as the economic performance of the country in general. This examination should be speedy in order not to delay financial assistance; a reasonably fast procedure could be assured since conditions in the country are known to the Agency from previous consultations.
 - (d) If the Joint Committee determines that there is an export shortfall of short duration and that the presuppositions of compensatory financing are met it will then normally refer the application to the IMF for compensatory financing. However, if the Joint Committee comes to the conclusion that the shortfall is definitely of a long-term nature (e.g. destruction of plantations by natural disaster, or significant change of the market situation due to the appearance of substitutes), it would refer the application to the Agency for supplementary financing. The Agency would then decide upon amount and conditions of supplementary financing, taking into account the need of the country (possible disruption of development programmes), its general performance and all relevant circumstances as well as the availability of the Agency's resources.
 - (e) Supplementary financing could also be provided if, after a drawing on the Fund's compensatory financing facility, it were to turn out that the shortfall was not of a short-term nature. This would be the case if e.g. also in the years following a drawing export receipts remain below expectations and if, as a consequence thereof, the danger of an interruption of the development process persists. Another example would be if, at the time of the repurchase falling due, the country were unable to effect repayment or could only do so by sacrificing investments important to development as a result of a persistent shortfall in export proceeds beyond the country's control.

- (f) The terms of supplementary financing should be flexible and correspond to the stage of development of the country concerned as well as to its particular situation. Normally, supplementary financing would be extended in a form not tied to particular projects. However, if the Agency were to determine that, e.g. for purposes of diversification or for earning foreign exchange, it is essential and urgent to promote specific projects it could tie its assistance to such projects and thereby assure maximum effectiveness.

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Observations by Mr. Fleming (International Monetary Fund) on 9 February 1967

1. The "policy package" to which countries participating in the Supplementary Financing Scheme are expected to subscribe at the beginning of planning periods includes several matters with which the Fund is closely connected, such as exchange policies, trade policies (in their balance of payments aspect) and domestic financial policies.
2. In section 4 of the Bank staff paper on the policy package (TD/B/C.3/AC.3/6) it is said that "In reaching an understanding with a member country, the Agency could avail itself of the experience and advice of the IMF on matters within the field of the Fund's responsibilities." In discussions during its first session (TD/B/C.3/AC.3/3/Add.1) this Group concluded that "The IMF is the responsible agency in matters of adjustment arising from balance of payments difficulties. Close co-operation between the Fund and the Agency would therefore be necessary in providing measures of adjustment to be adopted in connexion with the utilization of supplementary finance." In any event, I am confident that the Agent of the Supplementary Financing Scheme, if the Bank has anything to do with its management, will in fact consult the Fund about the initial agreement and will try to act on its advice. The Fund for its part, would certainly seek to co-operate to the best of its ability with any scheme that might be set up as a result of the deliberations of this body, though as I pointed out yesterday the success of this co-operation is bound to be influenced to some extent by the nature of the scheme that emerges. However, I will not conceal the point that the Fund staff has some difficulty in envisaging the modalities and content of this co-operation, particularly as regards the "policy package".
3. What is to be the content as far as Fund matters are concerned of the initial agreement regarding the policies to be followed by the country concerned over the five year planning period? In the first place it seems clear that it cannot contain concrete prescriptions as to monetary, fiscal and exchange policies to be adopted in various possible contingencies over the planning period as a whole though it might do

so with respect to the initial year of that period. The Fund, in making stand-by agreements, does not attempt to prescribe policies for more than a year at a time for the simple reason that the balance of payments situations to which these policies have to be adapted cannot be predicted for more than about a year ahead, if as much.

4. Certain broad policy objectives could, no doubt, be laid down, which countries might seek to attain over the five-year period. For example, that there should be no inflation, no balance of payments restriction, realistic exchange rates, etc. etc., but countries could scarcely undertake to succeed in attaining such objectives, where success depends as much on circumstances as on the good intentions of governments.

5. Another possibility that has been suggested is that countries be asked in the initial agreement to bind themselves to follow such recommendations as the Fund might make subsequently during the lifetime of the Plan, provided that these were compatible with the agreed investment programme. However, there are two problems here. In the first place one wonders whether countries would in fact be willing to give the Fund as much of a blank cheque as this solution would require. In the second place, could the Fund on its side accept the proviso that its policy recommendations should always be compatible with the scale and timetable of the investment programme envisaged in the initial agreement. In certain circumstances, for example in the event of a failure of aid on basic financing to materialize on the scale originally expected, the Fund would be bound to recommend some curtailment of aggregate domestic expenditure, including investment expenditure, in order to make room for the improvement in the balance of current payments that would then become necessary. Admittedly, where the only cause of difficulty in financing the investment programme arose from an export shortfall, such a decline in investment expenditure would not in general be appropriate, though, if the shortfall threatened to persist other means of adaptation might be called for. But a pure case of this sort is rather seldom found. In most situations there are multiple causes of difficulty. Another possible case is where an investment programme that looked perfectly reasonable at the time of the initial agreement turns out to be inflationary - perhaps because of a rise in unplanned investment despite the best efforts of the country concerned - and as a result the country becomes less competitive, and its exports fall below expectations. In such a case the Fund might want to recommend some stretching out or slowing down of planned investment expenditure.

6. I would conclude by saying that, while I have no ready solution for these difficulties, they are likely to be more easily overcome if the scheme itself is such as to encourage and reward the maximum flexibility in the development process.

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Summary of the remarks made by Mr. Irving S. Friedman (International Bank)
in the context of the discussions about the "policy package"

1. For the sake of clarity and taking into account the number of questions dealt with, it seems useful and convenient to group the problems in broad categories.

Nature of the policy package

2. The policy package, which can be understood as an agreement between the Agency administering the scheme and a member country about the development programme and policies which are objectively regarded as appropriate by the international community, is a key feature of the scheme. The IBRD proposal rests on this concept, which is essentially based on actual experience. Export projections are related to the policy package. In the setting up of such a policy package it is possible and advisable to make use of procedures already existing in international organizations like IBRD/IDA, IMF, CIAP, etc.

3. Virtually all developing countries have comprehensive or partial development programmes and these contain export projections, frequently of a detailed character. The scheme is intended to be universal, but some countries may not be in a position initially to participate in a few cases, because of the lack of even minimum development programmes, and in others, because of their inability at the time to pursue economic policies appropriate to development. The situation in this respect is bound to improve, among other things because of the advisory assistance of international organizations. The policy package proposal assumes that as economic development will increasingly assume the highest priority for developing countries, the successful implementation of this approach may help remove some of the existing constraints on the flows of development finance into these countries.

Elements to be embodied in the policy package

4. As the representatives of several donor countries pointed out, questions do arise about the availability of foreign assistance in development programmes. The policy package does not involve the enforcement of any contractual commitments for bilateral aid over a number of years, but it is clear that estimates about the foreign exchange needs of the programmes have to be made and that the developing country must also have some reason to believe that the basic development finance requirements are regarded as reasonable by the donor countries. In order to assess that a shortfall is beyond the control of a country, the policy package cannot be restricted to the export sector only. The factors and policies affecting exports arise in all sectors of the economy.

The problems of flexibility and revisions in development programmes

5. Development programmes are set up for a number of years, but some of their implementing policies cannot be rigid. Nobody would, for example, argue that monetary or fiscal policies can be fixed over time. Flexibility is necessary, but it has to be within a certain framework - that of an agreed development programme. "Rolling" plans, whatever be their theoretical merits, have been impracticable thus far. Continuing consultation and discussion may be expected to keep down areas of disagreement; however, when a disagreement arises between a country and the Agency about the revision of a development programme, the Agency's views should prevail in the ultimate, if the country wishes assistance from the Agency. In practice, these problems are solved by consultation and investigation assisted by informed and objective technicians eager to find the best practical solution.

Limits to the Agency's role

6. The policy package requirements under the supplementary finance scheme may constitute an extension of - but do not go significantly beyond what is already in practice presently. However, the forms may be different and it will be applicable to all member countries. The existence of permanent control of the Agency by the representatives of the national governments constitutes a safeguard against excessive intervention. A certain confidence in international agencies, which are created by governments and ultimately run by them, is of course needed in order to provide them with the necessary authority to carry out their task of judging economic performance. Assessment of economic performance has to be according to economic criteria. Political and social aspects are inevitably involved but economic criteria should rule in judging economic performance. The Agency has one prime objective - to assist in the achievement of sound development.

International and Inter-Agency Coordination

7. Sometimes development programmes of different developing countries may to a certain extent be in conflict with one another. In this case the Agency may well perform a kind of economic arbitration role. To some extent this sort of arbitration is already going on in international financial organizations. The attempt should be made to deal with this problem in collaboration with regional economic organizations and on the basis of economic criteria. As to the co-ordination with the requirements of other organizations, it can be assumed that these requirements fit into a reasonable development programme. So far as monetary and exchange policies are concerned, the views of the IMF would presumably guide the Agency. In general, the policy package represents what a country discusses with and agrees upon with donor countries and international organizations about its development programme when it seeks basic finance. The Agency, in such cases, would not duplicate these efforts or arrive at separate and different understandings. Thus, there is no need for duplication involved in several agencies going over the same ground concurrently.

8. Questions arose about actions of other countries affecting the exports of developing countries. The Agency can only take account of changes in commercial policies that countries have already agreed to in judging the export outlook.

Feasibility

9. The policy package cannot aim at precise enumeration but all the time should seek reconciliation of the sovereignty of a nation with the needs of international co-operation. Therefore, the proposal made by the representative of Ceylon seems a very constructive one, that the public policy understandings would be in broad macro-economic terms, including in particular export earnings, public and private investment, domestic savings etc., while implementation would be left to working relations between the country and Agency. The policy package and the scheme in general would certainly not be "easy" to operate since it was not automatic, but this is true of any non-automatic scheme of international finance. Given the co-operation of member countries, and with the application of objective standards, the administering Agency, with the necessary degree of technical competence, should however be in a position to implement the scheme successfully. Dealing with the more difficult aspects is already part of the going activities in development finance.

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Summary of the Remarks made by Mr. Friedman (International Bank) during further
discussion of the policy package on 15 February 1967

1. General remarks

The following attempts to summarize the remarks made during the further discussion on the Policy Package on Wednesday, February 15, 1967, it does not however attempt to summarize remarks which were already made in the previous discussions and have been circulated to the Group.

2. It is very difficult to predict in advance the future working of an international financial mechanism. It should be noted that the Group was considering and trying to answer how the Scheme might work including future policies and procedures rather than what might be included in an international understanding on the Scheme. Procedures and policies of international financial organizations were adapted in the light of experience and changing circumstances. In this respect a number of questions which were raised on the Policy Package could not be answered definitively at this time. The Scheme was not expected to even begin until 1969 or 1970. One cannot possibly predict with any precision what the Policy Package will be like five or ten years from now. However, it seems safe to say that whatever policy packages prevail at the time for basic finance will also be suitable for Supplementary Finance.

3. As to the influence of international institutions, there is no question of changing the authority of existing international organizations, particularly there is no question of the Scheme exercising authority which has been entrusted by international agreements to existing international organizations. It has been suggested that the choice of policy alternatives in the adjustment process should be left to the countries. There is no objection to such a procedure as long as it conforms with obligations under international agreements and that it is recognized that a country cannot unilaterally decide that it is fulfilling the policy programmes and still be entitled to assistance from the international community. It should be emphasized that no international organization wants to run the economy of a particular country. All countries live with the problem of reconciliation of development objectives with the need for day to day short-term policies. Moreover, for a great many countries and for all of the developing countries, short term policies had normally to operate within the framework of development objectives because of their overwhelming importance for these countries. In certain circumstances changes in the development plans cannot be avoided.

4. Specific questions

(i) How comprehensive should a Policy Package be?

On the basis of present practices, in certain cases it may be fairly comprehensive and in other cases only embody the critical points such as, for example, fiscal policy or management of public utilities. Thus sometimes you may go deeply into a particular question, but the coverage may not be wide. There will, of course, be no need to look in detail into elements which are satisfactory from the development viewpoint.

(ii) Formality

Here again, the attitude will be dictated by the circumstances; at present, these problems are dealt with privately and on a country by country basis. The Ceylon Representative had made a useful distinction between what might be publicized and what should be kept private. What is needed is that the mandate to the Agency should be clear. The additional workload involved will not be too heavy as most of the Policy Package elements are already covered by existing activities. Completely new procedures will only have to be set up for those occasional countries which had no previous arrangements with existing institutions. Most probably, there will be more formality in the future not only because of Supplementary Finance, but as a general trend. Due to the special circumstances of each country, there cannot be a unique type of Policy Package. It would be possible, if requested, to describe some of the different policy packages now in use, eliminating, of course, names of countries involved.

(iii) Criteria

In this respect one cannot have very simple ones, such as growth rates. Others like investment pattern, domestic savings, export effort, need to be considered. The real question is whether a country is making satisfactory efforts for its economic development. A blend of targets and policies could be worked out.

(iv) The nature of the claim

It should be stressed again that the Scheme elaborated by the IBRD Staff is not an automatic one. The Agency will have to make judgements and decisions and the performance of the country will be checked at the time of the unexpected shortfall. However, the Scheme does aim to deal with the serious problem of uncertainty arising out of unexpected export shortfalls. One should make a clear distinction between greater certainty and automaticity.

(v) Will Supplementary Finance be an addition to basic finance or a substitute for the latter?

Supplementary Finance should be considered as additional.

(vi) Is there a danger that the very poor countries who badly need additional resources will not be eligible for participation in this Scheme?

The vast majority of countries now have some form of development programme, including the poorest countries. One cannot expect the same behaviour in every country, but what is being sought is determination by each country to give economic development primary emphasis, and clear evidence of this. The Scheme itself is designed to serve needs of several categories of countries.

(vii) Does it underwrite basic aid?

The procedures suggested in the Scheme would lead to a greater degree of comprehension by creditors and donors of the external aid requirements of countries. There would, however, be no legal commitments for the projection periods. It is hoped that the careful examination of development programmes internationally might facilitate the required flows of development capital.

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Observations of Mr. Fleming, representative of the International Monetary Fund, in the course of the discussions of the Intergovernmental Group on Supplementary Financing on 6 February 1967.

Mr. Chairman, I would like to congratulate the UNCTAD secretariat, if I may, on this paper which very clearly and very succinctly explains the differences between compensatory financing and supplementary financing as proposed.

I think that the exposition is particularly useful in that it should put an end to an idea to which expression has occasionally been given in previous meetings of this body that one scheme is intended to deal with short-term fluctuations and the other with persistent or long-term fluctuations. This is quite clearly not the distinction between the two schemes, as they stand at present.

There is only one sentence of the paper about which I would have some reservations and that is the penultimate sentence which says that the objectives of the two schemes are compatible. Now there is probably a sense in which that statement is, or could be made to be, true, but I do not think it is true in the obvious sense in which it is likely to be taken, namely, that if the two schemes were put into practice, as they are, each of them could achieve its respective objective as described in the paper. By and large the object of a scheme of compensation - or of a scheme of supplementary financing - is to enable the economy of the country affected to be carried on as if it had a level of exports corresponding to the norm from which the shortfall is measured. In the case of the supplementary financing scheme, that norm is an export projection taken at discontinuous intervals, whereas in the case of the Fund scheme, it is a medium-term trend continuously recalculated. Now, since the norms themselves are different, countries cannot possibly behave as if their exports were simultaneously on both norms. I do not think therefore, that in this particular sense, the objectives of the two schemes can be said to be compatible.

My conclusion is that if the broad objectives of smoothing out export availabilities and of obtaining enough export income to maintain development on a desirable scale are to be reconciled, changes might have to be considered in one or other of the schemes.

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Observations by Mr. Flening (International Monetary Fund)
on 8 February 1967

As regards the first passage in my earlier remarks that has been subject to some questioning, I believe that our discussions are in danger of being confused by the rather vague or inconsistent use of terms such as "short-term and long-term fluctuations and shortfalls" and "persistent" and "non-persistent" shortfalls.

In our compensatory financing scheme we have taken short-term fluctuations to mean fluctuations of actual exports round a medium-term trend, or moving average, and we have taken short-term shortfalls to mean negative deviations from such a trend. By analogy medium-term fluctuations would mean fluctuations round a long-term trend and so on. It should be noted that even short-term shortfalls, as we have defined them, though in general they would be short-lived, might on occasion persist for a longer time than would be comfortable, and in this sense, may be persistent, though short-term, shortfalls. In any event, it is clear that the type of shortfall considered in connexion with the supplementary financing scheme does not fall under any of these headings. It is a shortfall not from an export trend but from a five-year export projection.

The difference between a shortfall from a five-year projection and a shortfall from a five-year moving average does not seem to me to be one which can be described as the difference between a long-term and a short-term shortfall.

As regards the second passage which has given rise to difficulty, perhaps I could put my point in a somewhat different way. If the compensatory financing scheme and the supplementary financing scheme as presented in the Bank study were in existence simultaneously, during certain periods it would be only the compensatory financing scheme, and during other periods only the supplementary financing scheme that would be effective. During projection periods for which projections had been pessimistic, the supplementary financing scheme would be out of operation so far as financing is concerned, and the compensatory financing scheme could go ahead doing what it is supposed to do, that is, evening out short-term fluctuations. On the other hand, during projection periods for which projections had been optimistic, the compensatory financing scheme might still be paying out money and taking it back, but it could be serving not its own purposes, but rather those of the supplementary financing scheme for which it would be helping to provide resources.

I will admit that the supplementary financing scheme does contain an element of smoothing out within the projection period. The fact that overages are offset against shortfalls means that, if the projections for the individual years are themselves smoothly distributed over the period, the export availabilities of the country will be smoothed out also, so that one of the objectives of the compensatory financing scheme will, to some degree, be fulfilled though not by the compensatory financing scheme itself. However, the other main objective of the compensatory financing scheme, which is to keep export availabilities from getting too far away from actual exports, will not necessarily be fulfilled. The effects of this will show up at the end of such a projection period, when there may be a rather abrupt transition from a level of export availabilities which is supported by large amounts of supplementary financing back to a level at which projected and actual exports coincide. In other words, there may be an abrupt fall in export availabilities at the end of such a period, the very sort of thing which compensatory financing is supposed to try to smooth out. But the compensatory financing scheme is in no position either to prevent this taking place, or to mitigate it. I would say that in such a situation, the objectives of the supplementary financing scheme would not be implemented.

There is still some reluctance to believe that the distinction between the supplementary finance scheme as contained in the Bank study and the basic financing arrangements does not correspond to a distinction between long-term and short-term shortfalls. To bring out the point more clearly, let us suppose a country has the sort of fluctuations in its exports that everybody would recognize as being long-term fluctuations, say a regular ten-year cycle or something like that. Now, if a cyclical decline were correctly anticipated at the time the export projections were made, there would be no shortfall whatever under the supplementary financing scheme, which seems to show that that scheme, as presented, is not intended to deal with long-term shortfalls in any normal sense.

At this point perhaps, I should make it clear that I have not been discussing the question of compatibility as between the UNCTAD recommendation on supplementary financing and the compensatory financing scheme. Frankly I believe that the recommendation contained two separate and possibly not quite consistent trends of thought; on the one hand, it dealt with persistent shortfalls and seemed to assume that these were the same type of shortfalls as the Fund was dealing with, except that they went on for a long time. On the other hand, it also suggested a new definition of shortfall in terms of reasonable expectation. Now as I understand it, the Bank, in its study, has essentially followed up the second strand of thought rather than the first, and has made it into a consistent system. Therefore, my remarks about problems of reconciliation do not relate to that part of the original resolution which deals with the persistence of shortfalls of the Fund type.

Coming back to what the distinguished representative of the United Kingdom was saying, I would certainly agree that technically the two schemes are completely compatible, but technically you can have a cooling mechanism and a heater operating simultaneously in the same room. That would be technically compatible but it would not make sense. This is an exaggerated analogy, but it brings out the point. The whole question is not whether the two schemes in their present form could run together but whether, if they did so, they would attain their respective objectives. However, I would like to say that there is not the slightest doubt in my mind that the objective of smoothing out export availabilities and the objective of providing for adequate finance for sound development are as such, entirely compatible.

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I would be inclined to agree with the distinguished representative of Ceylon that the main difficulties are those which arise over the policy package - the difficulties we have been discussing, though important, are not the most important. But the difficulties with regard to policy packages arise more on ordinary Fund drawings, or Fund advice to its members, than on the compensatory financing scheme because that scheme is to a considerable extent automatic in its application; the policy conditions are lighter than those that are normally applied to Fund drawings in the credit tranches. I also agree with him very much that the Bank and Fund have always managed in the past to co-ordinate their activities and I am sure they will do their best to do so under all circumstances, but clearly the closer the principles of the scheme of supplementary financing are to the principles of which the Fund is the guardian internationally the easier such co-ordination will be.

SM/66/116

November 4, 1966

To: Members of the Executive Board

From: The Secretary

Subject: Report on the Fourth Session of the UN Trade and Development Board

The Trade and Development Board of the UNCTAD held its fourth session at the European Office of the United Nations, Geneva, from August 30 to September 25, 1966, with 54 of the Board's 55 members participating. Attached for information is a report on the proceedings, prepared by the Fund representatives at the session (Mr. Edgar Jones and Mr. Asahiko Isobe).

Att: (1)

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INTERNATIONAL MONETARY FUND

Exchange and Trade Relations Department

October 26, 1966

UNCTAD - Fourth Session of the Trade and Development Board

The fourth session of the Trade and Development Board of the UNCTAD was held in Geneva from August 30 to September 25, 1966. In addition to a special session of the Committee on Invisibles and Financing Related to Trade held during the third session of the TDB in New York last January/February, the fourth session was preceded by the Permanent Sub-Committee on Commodities (June 27-July 15), the special session of the Committee on Shipping (July 18-22), and the first session of the Group on Preferences (July 26-August 12), which held their meetings in Geneva.

Of the 55 members of the Board, 54 were represented. There were observers from 32 governments, 20 specialized agencies and intergovernmental organizations, 4 UN regional economic commissions, and 9 nongovernmental organizations. The president, vice president and rapporteur were the same as at the third session (SM/66/38, p.1). Early in its proceedings the TDB set up two Sessional Committees of the Whole, the first to consider the agenda, date, location and general preparations for the next Conference, and the second to consider the reports of the Committees on Invisibles and Financing Related to Trade, Manufactures and Shipping. Sessional Committee I elected Mr. Franzi (Italy) and Sessional Committee II Mr. Kolo (Nigeria) as Chairmen. The main actions taken by the Board are summarized in Appendix I.

1. Supplementary Financial Measures

The Committee on Invisibles and Financing Related to Trade at its resumed first session in mid-April 1966 passed a resolution concerning the establishment of a small intergovernmental group of experts to study and report on the IBRD staff scheme of supplementary financial measures (TD/B/43, SM/66/55). Thirteen countries were nominated to provide representatives for the group: Argentina, Brazil, Ceylon, Federal Republic of Germany, France, Ghana, India, Japan, Sweden, United Arab Republic, United Kingdom, United States, and Yugoslavia. Two additional places were left open for countries from Eastern Europe, if they wished to join. Poland expressed its intention to do so. Staff representatives of the IBRD and the IMF were invited to assist in the work of the group.

The Board approved the setting up of the expert group mentioned above, and that the group should meet on October 10-14, 1966 in Geneva. In speeches that followed, great hopes were placed on the evolution of a report by the group which would lead to an agreed scheme at the Second Conference next year. No mention, however, was made of the Fund's compensatory financing arrangements which had been explained by a Fund representative, at the resumed first session of the Committee last April as being under active consideration by the Fund Board (SM/66/55, Appendix "D").

2. Review of the Implementation of the Recommendations of the Conference

The Board had before it a report by the Secretariat entitled "Review of International Trade and Development 1966" (TD/B/82, Add. 1 and 2) introduced by the Secretary General, Dr. R. Prebisch, at the beginning of the session. The main theme of the report is the disappointing rates of growth of the developing countries at the mid-point of the United Nations Development Decade, caused mainly by the lack of import availability of these countries due, in turn, to stagnation of inflow of financial resources from the developed countries and to the failure to increase exports from the developing countries. The existence of discriminatory commercial policies of the developed countries against products from developing countries is stressed. The report also mentions the importance of such financial measures as the supplementary financial measures, proposed by the IBRD staff, and buffer stock financing for primary products.

The report, being the first review of the implementation of the recommendations of the first Conference, was regarded as an important contribution to the UNCTAD activities. The developing countries held that, although two years had elapsed since the first Conference, there was no evidence of any universal readiness to act on the recommendations; attempts so far to negotiate agreements on sugar and cocoa had failed; the recommendations concerning removal of obstacles to trade had been disregarded by a number of developed countries. There was a general expression of hope that any future reform of the international monetary system should be carried out on a truly international basis. Hopes were also expressed for the elaboration of the supplementary financial measures at the meeting of the inter-governmental group of experts.

There was some general criticism of the staff report by the representatives of some developed countries to the effect that the report gave the impression that the main cause of the economic stagnation of the developing countries was the failure on the part of developed countries to implement fully the recommendations of the first Conference though this was not really in keeping with the facts. While expressing a concern about the slowness of improvement in the position of the developing countries, they emphasized the importance of measures so far taken by the developed countries in line with the recommendations of the first Conference. The direct cause-and-effect relationship between import needs and the economic development in developing countries, as expounded in the Secretariat report, gave another basis for a wide-ranging discussion; a number of developed countries did not consider that the failure of imports to grow sufficiently was the most important reason for general stagnation. The recent agricultural crisis in a number of developing countries was pointed out as one of the main factors which had slowed down the growth of national income in these countries. There was some criticism of the form and content of the Secretariat report that it was too lengthy and the topics for discussion too broad and wide; that some of the use of statistical data in the report was erroneous, especially the use of averages; and that using conglomerate statistics for all developing countries was too misleading. In general, the discussion, although it occupied

many plenary meetings, was inconclusive and had not seemed to offer any guidance for the Second Conference as seemed to be its intention. There was little discussion of questions of direct concern to the Fund's operations, such as the compensatory financing of export fluctuations.

At the end of the debate, a memorandum on the implementation of the recommendations of the first Conference (TD/B/108) was presented to the Board by the group of Thirty-One representing the developing countries. According to the request made in the memorandum, the Board decided that the Secretariat report as well as the summary records of the discussions on the implementation at the fourth session of the Board and the report of the Board on that session be submitted to the four committees of the Board for further review, in order that they could consider the line of future action necessary to facilitate their task in the preparation of the Second Conference.

3. Preparations for the Second Conference

a. Agenda

The Board was presented with a draft agenda for the second Conference drawn up by the Secretary-General after earlier consultation by mail with member governments of the UNCTAD. Discussion in the Board on the agenda as a whole and other preparations for the next Conference was prolonged-- 41 speeches altogether. Just before discussion of the agenda item by item the group of Thirty-One (developing countries) produced a new agenda and the Eastern European group also presented a revised agenda. The agenda of the group of Thirty-One contains several new items bringing the total main items to ten compared with six in the Secretary-General's agenda. The agenda of the socialist countries of Eastern Europe was more in line with the original draft agenda. Of interest to the Fund was the fact that in all three agenda there appeared a sub-item relating to international monetary issues. The agenda of the Thirty-One also included a separate sub-item on "Compensatory Financing." Concerning the item on technical assistance which appeared in all three agenda, there was a suggestion that such assistance in the field of finance and banking techniques should be included (see Section 6 below).

Several representatives pointed out that the lengthened agenda of the Thirty-One would make it impossible to complete the Conference in the 6 to 8 weeks contemplated. In this situation, Sessional Committee I decided to set up a drafting group to produce a single agenda. The drafting group produced a draft provisional agenda with a dozen controversial points in square brackets including "Reform of the International Monetary System-- measures for international reserve creation and their relation to development finance and trade of developing countries" (Item IV (e)). The chairman of the drafting group explained that these brackets did not necessarily mean that the members of the drafting group had not been able to come to an agreement on the inclusion in the agenda of those points enclosed in brackets; instead, it meant that by the fifth session of the Board more suitable wording for them could be produced as the result of further discussions between different country groups.

The Sessional Committee subsequently approved the above draft provisional agenda and agreed to transmit it to the Board. The Board adopted it without further comments, with an agreement that it be forwarded to all States members of the UNCTAD, the subsidiary bodies of the Board, the UN regional economic commissions and the UN Economic and Social Office in Beirut, as a basis for the preparation of the Second Conference and for such comments, observations or recommendations as they might wish to submit to the fifth session of the Trade and Development Board. The draft provisional agenda is reproduced in Appendix II of this report.

b. Time and Location

The UN General Assembly had decided (Resolution 2085 (XX), December 20, 1965) to convene the Second Conference in the first part of 1967, preferably in a developing country. At its third session, the Trade and Development Board passed a resolution requesting governments to make offers to act as host, not later than May 1, 1966 (SM/66/38, p.7). Only one invitation, from the Government of India, was received by that time.

There were little discussions of substance at Sessional Committee I on this subject. During the session of the Board, however, the group of Thirty-One held several private meetings and decided, only a few days before the closure of the plenary meetings, that the Second Conference be held in September/October 1967 in New Delhi. At the end of the session, the Board decided unanimously that the Second Conference be held in New Delhi during the period September/October 1967, its exact dates subject to a decision by the UN General Assembly at its present session in New York. The text of the decision by the Board is contained in Appendix III of this report.

c. Other Preparations

Regarding the program of preparatory work, a number of representatives from developing countries stressed that there should be no "action gap" between the present session of the Board and the Second Conference. To this end, an immediate start should be made among member countries, both at the national level and through bilateral and regional intergovernmental discussion among developing and developed countries. It was also stressed that the Secretariat should begin its preparatory work at once in cooperation wherever possible with the UN regional economic commissions and other appropriate international organizations.

The Board decided that at its fifth session it should carry on a comprehensive review of the program of preparatory work, rules of procedure and organizational structure of the Second Conference (see Appendix IV: draft provisional agenda for the fifth session of the Board). So as to provide time to finalize the preparations for the Second Conference, the Board decided to postpone the date of the fifth session from January/February 1967 until May 4-30, 1967 and also to finish all the preparatory work of its four committees before that time, so that they could bring their results to the Board for final consideration and decision (see calendar of meetings for 1967 in Section 9 below).

4. Committee Reports

a. Report of the Committee on Invisibles and Financing Related to Trade

Sessional Committee II took up a report of the Committee on Invisibles and Financing Related to Trade on this Committee's resumed first session in April 1966 (TD/B/73) dealing with the study of supplementary financing measures prepared by the IBRD staff. Some developing countries stressed that the measures now under consideration might be a useful way to complement existing compensatory financing arrangements and commodity price stabilization schemes. As an intergovernmental group of experts had been approved by the Board at the present session (see Section 1 above) to meet soon in October to discuss the subject technically, the Sessional Committee and the Board adopted the report without further discussion.

The Board also had before it a draft resolution concerning the "urgency of increasing the volume of developmental assistance" (TD/B/66, para. 59, reproduced in TD/B/L.85), consideration of which had been deferred from the third to the fourth session of the Board. An informal working group appointed by the Sessional Committee worked out a more generally acceptable text of a draft resolution (reproduced in Appendix V) and the Board adopted it without voting.

b. Report of the Committee on Manufactures

A fairly wide-ranging discussion took place at Sessional Committee II on the report of the Committee on Manufactures on its resumed first session in February and March 1966 (TD/B/69) and the report of the Group on Preferences (a sub-group of the Committee on Manufactures) on its first session in July and August 1966 (TD/B/84).

The main topic of discussion was the problem of preferential treatment to the exports of developing countries. The phenomenon of "reverse preferences" as the representative of India put it, i.e. higher tariff rates applied to manufactures and semi-manufactures exported by developing countries than those applied in general to those exported by developed countries, was regarded by a number of representatives from developing countries as the most important issue to be studied by the UNCTAD bodies in charge of the problem of manufactures. They urged again an early application by developed countries of trade preferences in favor of developing countries because they considered that this was the first indispensable step for the diversification of their export industries and thus for economic development. As for the sector studies being initiated by the Committee on Manufactures (see TD/B/69, para. 20) on forest and timber products, there was general consensus on the importance of such studies. Some representatives from developing countries suggested a wider scope for such studies so as to benefit those countries whose chief concern now was the diversification of infant export industries. As regards measures for promotion of exports from developing countries, the importance of creating regional trade information center was stressed by some representatives.

The developed countries in the Committee discussion emphasized briefly their efforts so far taken to increase imports from developing countries; they supported the sector studies but expressed dissent to the idea of establishing new trade information center for both technical and financial reasons.

Sessional Committee II had before it four outstanding draft resolutions bearing on the work of the Committee on Manufactures and the Group on Preferences consisting of three draft resolutions annexed to the report of the Committee on Manufactures on tariff differentials, nondiscriminatory preferences and the Kennedy Round (TD/B/69 Annex, reproduced in documents TD/B/C.2/L.21, L.22 and L.23) and a draft resolution on the expansion of exports of manufactures and semimanufactures of developing countries (TD/B/L.53). The consideration of the latter had been carried over from the second to the fourth session of the Board. Since general consensus could not be reached on these four draft resolutions, the Committee agreed that they should be reconsidered at the fifth session of the Board. With regard to the sector study, the Committee recommended and the Board decided to establish a joint UNCTAD/FAO ad hoc intersessional working party to deal with forest and timber products as proposed in the report of the Committee on Manufactures.

c. Report of the Committee on Shipping

The report of the Committee on Shipping on its special session held in July 1966 (TD/B/83) was adopted by the Board following a short discussion at the Sessional Committee. The Board also approved the recommendations contained in the report with regard to the work program to be initiated by the Committee on Shipping, such as studies concerning the level and structure of freight rates.

Most of the representatives both from developing and developed countries who spoke regretted that a unanimous agreement had not been reached at the special session of the Committee on Shipping on some specific points in its work program. Although representatives from developed maritime countries did not want to restate their positions expressed in the report, some of them stressed that, while agreeing with the program of work as a whole, they could not find any significance in the route studies proposed there and that they should be carried out carefully to avoid all the technical difficulties. One such representative said that his government could hardly endorse the idea of agreeing to any additional financial resources for the purpose of such studies.

5. Cocoa

The Secretary-General regretted in his opening speech that the Cocoa Conference held in New York last May and June under the UNCTAD sponsorship had not been successful, since agreement had been lacking on a number of points, particularly on such questions as the price range within which cocoa prices should be stabilized, the operation and prefinancing of a buffer stock,

and the control and supervision of the cocoa agreement. A short debate followed on this subject at the plenary meeting of the Board. During the session, however, an informal group of consumers and producers, consisting of 12 countries and FAO, discussed the possibility of reconvening the cocoa conference. At a plenary meeting toward the end of the session it was announced by the president that this informal group would continue its work to narrow the gap between the two parties and to search for the possibility of reconvening the conference in the near future. The Board decided to include in its report of the fourth session a joint declaration presented by 30 developing countries urging, in particular, the efforts of large consuming countries in the reduction of barriers to the trade in cocoa and to its consumption. The joint declaration is reproduced in Appendix VI of this report.

6. Technical Assistance

The Board had before it a Note by the Secretary-General entitled "United Nations Technical Assistance Activities in Trade and Related Fields" (TD/B/97 and Add. 1). Several recommendations of the first Conference call for the provision or expansion of the United Nations technical assistance in support of the Conference's objectives. In this connection, the Secretary-General thought it necessary for the Trade and Development Board to determine, together with other United Nations agencies and intergovernmental organizations concerned, the most effective means and perhaps new methods of rendering assistance in the fields of international trade and invisibles, particularly export promotion so that the UNCTAD could render substantive support to the United Nations technical assistance efforts in the fields of UNCTAD's competence.

During the course of discussion, the view was expressed by some representatives from developing countries that the Secretary-General of UNCTAD should become a member of the Inter-Agency Consultative Board of the United Nations Development Programme. Several representatives from developed countries stressed that full use should be made of the existing administrative and operational facilities of the United Nations, that no new machinery be created within the UNCTAD and that unnecessary duplication of the work pursued by United Nations specialized agencies and other intergovernmental organizations in the fields of export promotion and invisibles be avoided. At the end of the debate, a draft resolution entitled "Technical assistance in trade and related fields" was introduced by India on behalf of 31 developing countries (TD/B/L.99, reproduced in Appendix VII of this report). The Board adopted the draft resolution unanimously.

There was also an item on technical assistance in the draft agenda for the Second Conference submitted to Sessional Committee I. The representative of one socialist country proposed the inclusion in the agenda of an item concerning technical and specialized assistance in the field of foreign trade, including trade techniques, export promotion, trade publicity, finance and banking techniques, and international transport and insurance. Although the draft provisional agenda approved by the Board does not refer to these specific points, it is anticipated that they will again be topics for discussion at the fifth session of the Board.

7. Trade Expansion and Economic Integration among Developing Countries

The Board had before it a report by an expert committee appointed by the Secretary-General of the UNCTAD entitled "Trade Expansion and Economic Cooperation among Developing Countries" (TD/B/68 and Add. 1, 2 and 3) and a report by the Secretariat "Trade Expansion and Economic Integration Among Developing Countries (TD/B/85). The general view expressed at the plenary meetings seemed to support the basic idea maintained by the two reports that regional or subregional cooperation among developing countries was an important step toward their economic development. Little discussion of direct interest to the Fund took place during the short debate, except that the representatives of some developing countries referred to the favorable effects which bilateral payments agreements in general might have in the course of trade expansion among these countries.

The Board adopted a draft resolution (TD/B/L.97) sponsored by 30 developing countries to the effect that the discussion on this matter would take place at the fifth session of the Board with special regard to the action to be taken by developing countries, the international action to be taken in support of the efforts of the developing countries, and the further steps for preparing the programs to be considered in this respect at the Second Conference. In the meantime, it was requested that the Secretary-General of UNCTAD should submit the two reports to the UN regional economic commissions, international and regional financial institutions, and appropriate intergovernmental organizations for comments and suggestions. The resolution appears in Appendix VIII of this report.

8. Designation of Nongovernmental and Intergovernmental Organizations

Lengthy discussions took place at the plenary meetings on the application for observership in the Board sessions of eight nongovernmental organizations including the U.S. Chamber of Commerce.

The application submitted by the U.S. Chamber of Commerce had been a pending matter carried over from the previous session of the Board. The Secretary-General made a statement explaining his view on this matter that in view of the large influence which the applying organization had on the formation of U.S. foreign policy, it would be to the common benefit of the member countries to seek its cooperation. Some countries strongly objected to its observership, saying that the criteria for nongovernmental organizations stipulated in rule 79 of rules of procedure were ambiguous and that they did not want to see UNCTAD meetings flooded with observers. The Board decided to review at its fifth session the arrangements for the participation of nongovernmental organizations, particularly the criteria for these organizations provided for in rule 79 of the rules of procedure. For the purpose of this review, the Secretary-General was requested to submit proposals concerning the criteria mentioned above to the Board at that session and to ensure that governments would have sufficient time to consider these proposals beforehand. The Board further decided to defer its consideration of the eight applications including that of the U.S. Chamber of Commerce, pending the review of the arrangements.

A similar discussion took place with regard to the designation of inter-governmental bodies. In this case, a consensus seemed to exist among the representatives as they decided to designate the Council of Arab Economic Unity for the purpose of participation in the deliberations of the Board and its subsidiary bodies under rule 78 of the rules of procedure (TD/B/76). When the Board took up another application for designation, however, the representative of the country which had supported the designation of the U.S. Chamber of Commerce as a nongovernmental organization proposed to defer the discussion until the fifth session of the Board, pending the Secretariat's study on new criteria for intergovernmental bodies which should go along with the similar study proposed on nongovernmental organizations. The Board decided to postpone its deliberations until its fifth session, pending the examination by the Board, based on the studies by the Secretariat, of the application of the provisions of rule 78 regarding the participation of intergovernmental bodies in the work of the Board, taking into account the character and field of interest and competence of such bodies.

9. Work Program for 1966 and 1967

Several changes in the work program for the remainder of 1966 and the first nine months of 1967 were approved by the Board in order to facilitate the work by the member governments and the Secretariat in their preparation of the Second Conference scheduled for September/October 1967. The meetings of four committees of the Board were transferred from the end of 1966 to the first four months of 1967 so that the fifth session of the Board, in May 1967, could make best use of their results for the purpose of the preparation of the Conference. The calendar of meetings approved by the Board is as follows:

	<u>1966</u>	<u>Duration</u>	<u>Location</u>
Expert Group on Reinsurance	Sept 26 - Oct 8	2 weeks	Geneva
Advisory Committee to the Board and to the Committee on Commodities	Sept 27 - 30	4 days	Geneva
Intergovernmental Group on Supplementary Financing	Oct 10 - 14	1 week	Geneva
Preparatory meetings on Cocoa	October/November		to be determined
FAO/UNCTAD Working Party on Timber and Forest Products	Oct 31 - Nov 7	1 week	Geneva
Sugar Consultations	to be determined		to be determined
Exploratory meeting on Copper	to be determined		to be determined

	<u>1967</u>	<u>Duration</u>	<u>Location</u>
Committee on Commodities, second session, and Permanent Sub-Committee on Commodities, resumed first session	Jan 10 - 27	3 weeks	Geneva
Committee on Manufactures, second session	Jan 31 - Feb 15	2-1/2 weeks	Geneva
Group on Preferences, second session	Jan 31 - Feb 8	9 days	Geneva
Commodity Conference	to be determined	5 weeks	to be determined
Intergovernmental Group on Supplementary Financing, second session	Feb 6 - Feb 24	3 weeks	Geneva
Committee on Shipping, second session	Feb 21 - Mar 8	2-1/2 weeks	Geneva
Permanent Group on Synthetics and Substitutes, first session	to be determined	9 days	to be determined
Committee on Invisibles and Financing Related to Trade, second session	April 4 - 19	2-1/2 weeks	New York
Trade and Development Board fifth session	May 4 - 30	4 weeks	Geneva, or if impossible, New York
Commodity Conference	to be determined	7 weeks	to be determined
Second Conference	September/October	7 weeks	New Delhi
Advisory Committee to the Board and to the Committee on Commodities, second session	to be determined	2 weeks	to be determined
Eight Expert Groups ^{1/}	to be determined	16 weeks	to be determined

Note: All meetings for the remainder of 1967 to be determined in the light of decisions taken at the Second Conference.

^{1/} The 1967 budget estimates provide \$115,000 for eight sessions of ad hoc expert meetings and of the Advisory Committee to the Board and to the Committee on Commodities. These were intended to provide expert advice to the continuing machinery of UNCTAD. A number of similar meetings have already taken place during 1966. It would be the Secretary-General's intention during 1967 to use this sum to provide for further meetings of some of the expert groups that had already met, and possibly for such groups as might prove useful in connection with the preparations for the Second Conference. It would be envisaged that any new groups concerned with the Conference would arise from meetings of the main committees or the Board that would be held during the first part of 1967.

APPENDIX I

Main Actions taken by the Board during its Fourth Session

The Board adopted the following resolutions and decision:

Technical Assistance in Trade and Related Fields (TD/B/L.99, reproduced in Appendix VII of this report).

Trade Expansion, Economic Cooperation and Integration Among Developing Countries (TD/B/L.97, reproduced in Appendix VIII of this report).

Urgency of Increasing the Volume of Developmental Assistance (TD/B/L.92, Annex, reproduced in Appendix V of this report)

Venue, Date and Duration of the Second Conference (TD/B/L.93 Add. 2(A), reproduced in Appendix III of this report)

The Board approved:

The establishment of an intergovernmental group of experts to consider the supplementary financial measures (see Section 1 of this report)

The establishment of a joint UNCTAD/FAO working party to deal with forest and timber products (see Section 4.b. of this report)

The work program of the Committee on Shipping (see Section 4.c. of this report)

The work program of the Secretariat on the criteria for nongovernmental and intergovernmental observers in the UNCTAD meetings (see Section 8 of this report)

Calendar of meetings for the remainder of 1966 and the first nine months of 1967 (see Section 9 of this report)

Draft provisional agenda for the Second Conference (TD/B/SC.5/L.5/Rev.1, reproduced in Appendix II of this report)

Draft provisional agenda for the fifth session of the Board (TD/B/L.96, reproduced in Appendix IV of this report)

The Board agreed to include in its report to the General Assembly the following documents:

A joint declaration on negotiation of a cocoa agreement (TD/B/106, reproduced in Appendix VI of this report)

A memorandum on the implementation of the recommendations of the first Conference (TD/B/108)

The Board decided to defer until its fifth session its consideration on the following draft resolutions:

Progressive development of the law of international trade (TD/B/L.98)

Tariff differentials (TD/B/C.2/L.21, see Section 4.b. of this report)

Nondiscriminatory preferences (TD/B/C.2/L.22, see Section 4.b. of this report)

Kennedy Round Negotiations (TD/B/C.2/L.23, see Section 4.b. of this report)

The expansion of exports of manufactures and semimanufactures of developing countries (TD/B/L.53, see Section 4.b. of this report)

Steps to be taken to achieve agreement on principles governing international trade relations and trade policies conducive to development (TD/B/L.74)

The Board elected for a term of three years, expiring December 31, 1969, one third of the members of its four committees.

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UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

TRADE AND DEVELOPMENT BOARD
Fourth session
First sessional Committee

DRAFT PROVISIONAL AGENDA FOR THE SECOND CONFERENCE

Submitted by: Contact Group of First Sessional Committee

I. Trends and problems in world trade and development

- (a) Review of recent developments and long-term trends, implementation of the recommendations and other provisions of the Final Act of the first conference - consideration of further action.
- (b) Steps to achieve a greater measure of agreement on principles governing international trade relations and trade policies conducive to development (see Annexes A.I.1; A.I.2 and A.I.3 of the Final Act of UNCTAD, 1964).
- (c) Trade relations among countries having different economic and social systems including problems of East-West trade, paying attention particularly to the trade interests of developing countries and taking into account the work in this field of other United Nations organs, including the regional economic commissions.
- (d) Impact of the regional economic groupings of the developed countries on international trade including the trade of the developing countries.

II. Commodity Problems and Policies

- (a) Review of recent developments and long-term trends in commodity trade including activities of commodity groups and other commodity bodies in the light of recommendations and other provisions of the Final Act of the first conference.
- (b) Main elements of commodity policy including international commodity arrangements and other techniques of commodity market stabilization^{1/}.

^{1/} It was emphasized by a number of countries that these matters would need to be examined in relation to the situation in particular commodities.

- (i) operation and financing of buffer stocks;
- (ii) role and financing of diversification programmes;
- (iii) basic principles and guidelines for pricing policy designed to maximize receipts from export of primary commodities.

- (c) Programme for the liberalization and expansion of trade in commodities of interest to developing countries.

III. Expansion and diversification of export of manufactures and semi-manufactures of developing countries

- (a) Review of recent developments and long-term trends in trade in manufactures and semi-manufactures in the light of recommendations and other provisions of the Final Act of the first conference.
- (b) Preferential or free entry of exports of manufactures and semi-manufactures of developing countries to the developed countries.
- (c) Programme for the liberalization and expansion of trade in manufactures and semi-manufactures of interest to developing countries.
- (d) Measures for the promotion, expansion and diversification of exports of manufactures and semi-manufactures from developing countries; cooperation with UNOID aimed at the establishment and expansion of export oriented industries in developing countries; other forms of economic, industrial and technical cooperation.
- (e) Arrangements leading to the reshaping of the existing international division of labor.

IV. Growth, development finance and aid (synchronization of international and national policies)

- (a) Review of recent developments and long-term trends in the light of recommendations and other provisions of the Final Act of the first conference.
- (b) Financial resources and requirements of developing countries.
 - (i) measures for increasing the flow of international public and private capital to developing countries
 - (ii) measures for improving the terms and conditions of aid
 - (iii) measures for dealing with the problem of international indebtedness

- (c) Supplementary financial measures.
 - (d) Compensatory financing^{1/}.
 - (e) Reform of the International Monetary System - measures for international reserve creation and their relation to development finance and trade of developing countries.
- V. Problems of developing countries in regard to invisibles including shipping
- (a) Review of recent developments and long-term trends in the field of invisibles including shipping in the light of the recommendations and other provisions of the Final Act of the First Conference.
 - (b) Level and structure of freight rates, Conference Practices and adequacy of shipping services - progress report on studies by the Secretariat.
 - (c) Shipping Industry in developing countries including expansion of merchant marines of developing countries.
 - (d) Consultation Machinery in Shipping.
 - (e) Port Improvements. Progress report on studies by the Secretariat.
 - (f) International legislation on shipping.
 - (g) Transfer of technology, including know-how and patents.
- VI. Trade expansion and economic integration among developing countries, measures to be taken by developing and developed countries - including regional, sub-regional and inter regional arrangements.
- VII. Special measures to be taken in favor of the least developed among the developing countries aimed at expanding their trade and improving their economic and social development
- VIII. General review of the work of UNCTAD
- (a) Activities of the organs of the Conference.
 - (b) Technical assistance activities relating to trade including training of technical and special staff of developing countries.

^{1/} Reservation entered by Group B concerning the need for a specific sub-item on this subject.

Decision by the Board at its Fourth Session on the Venue,
Date and Duration of the Second Conference

The Board considered the report of the Secretary-General of the Conference (TD/B/79) regarding the venue, date and duration of the Second Conference in the light of General Assembly resolution 2085 (XX) of 20 December 1965 and its own resolution 27 (III). It decided to accept the Government of India's offer of host facilities for the Second Conference and to recommend to the General Assembly that the Conference be held in New Delhi for a period of seven weeks beginning in September 1967, the exact date in that month to be decided by the General Assembly in the context of the calendar of United Nations meetings.

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UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

TRADE AND DEVELOPMENT BOARD

Fourth session

Agenda item 14

DRAFT PROVISIONAL AGENDA FOR THE FIFTH SESSION^{1/}

Submitted by the Secretary-General of UNCTAD

1. Election of officers
2. Adoption of the agenda
3. Adoption of the report on credentials
4. Second session of the United Nations Conference on Trade and Development: objectives, provisional agenda and programme of preparatory work, rules of procedure and organizational structure.
5. Report of the Committee on Commodities
6. Report of the Committee on Manufactures
7. Report of the Committee on Invisibles and Financing related to Trade
8. Report of the Committee on Shipping
9. Problems arising in trade relations between countries having different economic and social systems.
10. Steps to be taken to achieve complete agreement on principles governing international trade relations and trade policies conducive to development (see annexes A.I.1, A.I.2 and A.I.3 of the Final Act of UNCTAD, 1964)
11. Trade expansion, economic cooperation and integration among developing countries
12. Reports on negotiations or consultations on individual commodities

^{1/} Subject to modifications in the light of further decisions which might be taken by the Board at its present session.

13. Designation of inter-governmental bodies in accordance with rule 78 of the rules of procedure
14. Designation of non-governmental organizations in accordance with rule 79 of the rules of procedure
15. Review of the calendar of meetings
16. Provisional agenda for the sixth session of the Board
17. Financial implications of the actions of the Board
18. Other business
19. Adoption of the report of the Board on its fifth session.

ANNEX

DRAFT RESOLUTION

Urgency of increasing the volume of developmental assistance

Afghanistan, Argentina, Bolivia, Brazil, Cameroon, Ceylon, Chile, Democratic Republic of the Congo, Dahomey, Ecuador, El Salvador, Ethiopia, Ghana, Guinea, Honduras, India, Iran, Iraq, Lebanon, Madagascar, Mali, Mexico, Morocco, Nigeria, Pakistan, Philippines, United Arab Republic, United Republic of Tanzania, Uruguay, Yugoslavia: joint draft resolution

The Trade and Development Board

Recalling the recommendation contained in annex A.IV.2 of the Final Act of the United Nations Conference on Trade and Development in which developed countries were called upon to endeavor to supply, in the light of the principles laid down in recommendation A.IV.1, financial resources to developing countries of a minimum net amount approaching, as nearly as possible, 1 per cent of their national income.

Noting that the Development Assistance Committee of the OECD recognized that the requirements of developing countries were large and expanding, and that continued efforts were needed to elicit a larger volume of assistance,

Noting also the finding of the World Bank, in its annual report for 1964-65 that the capability of developing countries to make productive use of resources has now increased so that they can effectively use, on an average over the next five years, some \$3,000 million to \$4,000 million per year more than they have actually received in the recent past,

Recalling the concern expressed in General Assembly resolution 2088 (XX) about the fall in the quantum of assistance to developing countries in recent years and the consequent reiteration of the request to the developed countries to take urgent measures to ensure and accelerate the flow of international assistance and long-term capital to developing countries in the required measure.

Welcoming, however, that the flow of financial resources to developing countries increased in 1965,

Bearing in mind the Secretary-General's conclusion in his report (TD/B/82) that the rate of growth of the developing countries as a whole was well below the 5 per cent per annum specified for the U.N. Development Decade,

Recognizing that on account of the rapid increase in the population of the developing countries, the decline in the rate of growth in per capita income has been even steeper than in aggregate national incomes,

Recognizing that the developing countries and the economically advanced countries are involved in a common effort to accelerate the rate of economic and social progress in the developing countries; and that the achievement of this goal depends inter-alia upon the effective mobilization and use by the developing countries of their resources, the degree and nature of financial support and technical cooperation made available by the more economically advanced countries, and the relationship of one with the other,

Invites developed countries to provide urgently for suitable increases in the net flow of their developmental assistance in order to attain the UNCTAD target as defined in Recommendation A.IV.2, having regard, however, to the special position of certain countries' which are net importers of capital,

Invites developing countries urgently to make all possible efforts to increase the mobilization of their domestic resources to the fullest extent possible.

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16 September 1966

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UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

TRADE AND DEVELOPMENT BOARD

Fourth session

Geneva, 30 August 1966

Agenda item 9

REPORT ON THE UNITED NATIONS COCOA CONFERENCE

Negotiation of a cocoa agreement

Argentine, Bolivia, Brazil, Cameroon, Ceylon, Congo
(Democratic Republic), Chile, Dahomey, Ecuador,
El Salvador, Ethiopia, Ghana, Guinea, Honduras, India,
Indonesia, Iraq, Iran, Lebanon, Madagascar, Mali, Morocco,
Mexico, Nigeria, Pakistan, Philippines, United Arab Republic,
United Republic of Tanzania, Uruguay and Yugoslavia:
Joint declaration

The developing countries members of the Trade and Development Board, present at its fourth session in Geneva, having studied the report of the Secretary-General of UNCTAD and the statements of delegations on the results of the United Nations Cocoa Conference of 1966, have decided to make public their unanimous position on the failure of the New York Conference and on the possibilities of speedily reaching an agreement.

1. The developing countries express their deep disappointment at the failure of the New York Cocoa Conference;

Regret to note that many developed countries signatories of the Final Act of the first UNCTAD Conference have not yet demonstrated their political will to implement the recommendations to which they subscribed in Geneva in 1964;

Regret in particular that a minority of the developed countries have not been able to accept the proposal for a remunerative minimum price put forward by the producing countries.

2. The developing countries reiterate their unanimous will to reach a cocoa agreement speedily and before the second session of UNCTAD, and hope that fresh efforts may be directed to the conclusion of an agreement which will answer their needs in conformity with the recommendations of the first UNCTAD Conference, especially the following:

- (a) stable and remunerative prices;
- (b) effective buffer-stock machinery for the maintenance of the minimum price;
- (c) pre-financing of the first buffer stock on favorable terms by international finance institutions or by the governments of developed countries;
- (d) effective means of control;
- (e) adoption of measures for the reduction of barriers to the trade in cocoa and to its consumption, with due regard to the recommendations of Annex A.II.1 of the Final Act of the first UNCTAD Conference.

3. The developing countries have taken note of the statements made by the developed countries during the discussion on item 9 in plenary meeting to the effect that they would make every effort to meet the wishes of the producing countries.

4. The developing countries consider that future negotiations must take account of the substantial concessions made by the producing countries during the negotiations in New York, and feel that a similar effort by the developed countries would make an effective contribution to the achievement of an international cocoa agreement.

Distr.
LIMITED

TD/B/L.99
22 September 1966

Original: ENGLISH

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

TRADE AND DEVELOPMENT BOARD
Fourth session
Agenda item 16

TECHNICAL ASSISTANCE IN TRADE AND RELATED FIELDS

Argentina, Bolivia, Brazil, Cameroon, Ceylon, Chile,
Congo (Democratic Republic), Dahomey, Ecuador, El Salvador,
Ethiopia, Ghana, Guinea, Honduras, India, Indonesia, Iran,
Iraq, Lebanon, Madagascar, Mali, Mexico, Morocco, Nigeria,
Pakistan, Philippines, United Arab Republic, United Republic
of Tanzania, Uruguay and Yugoslavia:
Joint draft resolution

The Trade and Development Board,

Recognizing the particular needs of the developing countries for international assistance in promoting their exports and raising their income from invisible transactions;

Taking Account of existing Technical Assistance facilities of the United Nations and other Inter-Governmental Organizations in the fields of export promotion and invisibles, and having regard to the need to avoid unnecessary duplication of efforts;

Having considered the Note by the Secretary-General of UNCTAD on United Nations technical assistance activities in trade and related fields (TD/B/97 and Addendum 1 of 15 August 1966).

Bearing in mind General Assembly resolution 1995 (XX) which provides that one of the principal functions of UNCTAD is "to promote international trade, especially with a view to accelerating economic development";

Considering that several recommendations of the first Conference call for the provision of expansion of United Nations technical assistance in support of the Conference's objectives (in particular recommendations A.II.4, A.II.5, A.III.3, A.III.4, A.III.8 and A.IV.24);

Noting paragraphs 32 and 77 of the report of the Governing Council of the UNDP on its second session (E/4219), referring to the opportunities for extending UNDP assistance to marketing services, export promotion and tourism, and to UNDP's readiness to be actively associated with UNCTAD in its endeavors to improve the trading position of the developing countries;

1. Invites the United Nations Development Programme and the Secretary-General of the United Nations to give all due consideration to requests from the developing countries for technical assistance in the fields of export promotion and invisibles, including shipping, insurance and tourism.

2. Welcomes the statements of the Secretary-General of UNCTAD that the Secretariat is ready to play an effective role in Technical Assistance activities by providing substantive support to such activities and not by adding further machinery to what already exists.

3. Recommends to the Secretary-General of United Nations and to the UNDP, to ensure that the services available in UNCTAD are so utilized in the consideration of requests from developing countries, and in the execution of such requests, in the field of export promotion and invisibles, including shipping, insurance and tourism.

4. Invites the Secretary-General of UNCTAD to report to the 5th Session of the Board on the arrangements made under paragraph 3 above.

5. Recommends further to the General Assembly to provide that the Secretary-General of UNCTAD shall be a member of the Inter-Agency Consultative Board of UNDP.

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TD/B/L.97
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UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

TRADE AND DEVELOPMENT BOARD
Fourth session
Agenda item 17

TRADE EXPANSION, ECONOMIC COOPERATION AND INTEGRATION
AMONG DEVELOPING COUNTRIES

Trade expansion and economic integration among developing countries

Argentina, Bolivia, Brazil, Cameroon, Ceylon, Chile,
Congo (Democratic Republic), Dahomey, Ecuador, El Salvador,
Ethiopia, Ghana, Guinea, Honduras, India, Indonesia, Iran,
Iraq, Lebanon, Madagascar, Mali, Morocco, Mexico, Nigeria,
Pakistan, Philippines, United Arab Republic, United
Republic of Tanzania, Uruguay and Yugoslavia: Joint draft
resolution

The Trade and Development Board

Recalling the recommendations of the First Conference regarding the necessity of expanding trade and promoting economic cooperation and integration among developing countries on a mutually beneficial basis;

Conscious of the significant contribution which collective self-help efforts among developing countries could make for accelerating development;

Taking note of the efforts undertaken by developing countries to expand trade among themselves, to establish regional or sub-regional markets and to plan development on an integrated basis;

Appreciating the sustained efforts undertaken by the Regional Economic Commissions and the Economic and Social Office in Beirut in this field;

Considering that the reports submitted to the Board (report of the group of experts on "Trade Expansion and Economic Cooperation among Developing Countries," TD/B/68; report of the UNCTAD Secretariat on "Trade Expansion and Economic Integration among Developing Countries," TD/B/85); require detailed study and discussion with a view to defining the action programmes that might be adopted by the time of the Second Conference;

1. Requests the Secretary-General of UNCTAD to transmit the two reports to the Regional Economic Commissions, the Economic and Social Office in Beirut and the existing economic groupings of the developing countries for their consideration, comments and suggestions;
2. Requests the Secretary-General of UNCTAD to transmit the reports to the international and regional financial institutions and appropriate intergovernmental organizations offering them the opportunity to comment on the suggestions contained therein that relate to them;
3. Decides that a discussion on trade expansion, economic cooperation and integration, on a regional, sub-regional and inter-regional basis, among developing countries will take place at its 5th session with special regard to the following points, such as;
 - (a) the action to be taken by developing countries
 - (b) the international action to be taken in support of the efforts of the developing countries
 - (c) the further steps for preparing the programmes to be considered in this respect at the Second Conference.
4. Invites the Secretary-General of UNCTAD to assist, as may be requested, existing economic groupings of the developing countries in the consideration and preparation of this subject matter.

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FOR
AGENDA

Secretary - Bank

Room 211

#12

SM/66/77
Revision 1
Supplement 1

August 26, 1966

To: Members of the Executive Board
From: The Acting Secretary
Subject: Compensatory Financing of Export Fluctuations: Draft Decision

The attached redraft of the proposed decision on Compensatory Financing reflects the changes discussed at Executive Board Meeting 66/73, on August 19, 1966. It omits the paragraph on the repurchase provision which is the subject of a separate paper, SM/66/104.

It is anticipated that this topic will be brought to the Board Agenda during the first week after the recess.

Att: (1)

Other Distribution:
Department Heads
Division Chiefs

Compensatory Financing of Export Fluctuations

Draft Decision

(To replace Section XII, pages 28-30, in SM/66/77, Revision 1)

In the light of the foregoing considerations, Decision No. 1477-(63/8) of February 27, 1963, on Compensatory Financing of Export Fluctuations is hereby amended by the deletion of paragraphs (5) through (8) and the substitution of the following paragraphs:

(5) The Fund has reviewed its policies to determine how it could more readily assist members, particularly primary exporters, encountering payments difficulties produced by temporary export shortfalls, and has decided that such members can expect that their requests for drawings will be met where the Fund is satisfied that

- (a) the shortfall is of a short-term character and is largely attributable to circumstances beyond the control of the member; and
- (b) the member will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties.

Drawings outstanding under this paragraph (5) may amount to 50 per cent of the member's quota provided that (i) except in the case of shortfalls resulting from disasters or major emergencies, such drawings will not be increased by a net amount of more than 25 per cent of the member's quota in any 12-month period, and (ii) requests for drawings which would increase the drawings outstanding under this paragraph (5) beyond 25 per cent of the member's quota will be met only if the Fund is satisfied that the member has been cooperating with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties.

The existence and amount of an export shortfall for the purpose of any drawing under this paragraph (5) shall be determined with respect to the latest 12-month period preceding the drawing request for which the Fund has sufficient statistical data, and any excess of a shortfall over the drawing made under this paragraph (5) in respect to that shortfall cannot be carried forward and covered by a later drawing under this paragraph (5).

(6) In order to identify more clearly what are to be regarded as export shortfalls of a short-term character, the Fund, in conjunction with the member concerned, will seek to establish reasonable estimates regarding the medium-term trend of the member's exports based partly on statistical calculation and partly on appraisal of export prospects.

(7) [A repurchase provision is not included at this time. Alternative repurchase schemes in the light of the discussion at last Friday's Executive Board meeting are described in SM/66/104.]

(8) Whenever the Fund's holdings of a member's currency resulting from an outstanding compensatory drawing under paragraph (5) are reduced, by the member's repurchase or otherwise, this will restore pro tanto the member's facility to make a further compensatory drawing under that paragraph, should the need arise.

(9) When drawings are made under paragraph (5), the Fund will so indicate in an appropriate manner. Within six months from the date of any drawing which is not under paragraph (5) and to the extent that it is still outstanding, a member may request that all or part of the drawing be reclassified and treated, for all purposes of this decision, as a drawing made under paragraph (5). The Fund will agree to such a request if at the time of the request the member meets the requirements for a drawing of an equal amount under paragraph (5) and makes the representation as to repurchase appropriate to such drawings, which representation will then be substituted for the original repurchase representation.

(10) In order to implement the Fund's policies in connection with compensatory financing of export shortfalls, the Fund will be prepared to waive the limit on Fund holdings of 200 per cent of quota, where appropriate. In particular, the Fund will be prepared to waive this limit (i) where a waiver is necessary to permit compensatory drawings to be made under paragraphs (4) and (5) above, or (ii) to the extent that drawings in accordance with paragraph (5) are still outstanding.

Moreover, the Fund will apply its tranche policies to drawing requests by a member as if the Fund's holdings of the member's currency were less than its actual holdings of that currency by the amount of any drawings outstanding under paragraph (5).

(11) The provision of credit to deal with the balance of payments effects of export fluctuations provides immediate relief for a country's short-term difficulties. In many cases, however, it will also be necessary to introduce measures of a policy character in order to attain a satisfactory and lasting solution to a country's balance of payments problems. Members generally have actively cooperated with the Fund to find and adopt the measures necessary to this end. Beyond immediate balance of payments difficulties, the primary exporting countries are, in many instances, facing unfavorable long-term export trends, and all are trying to meet the challenge of achieving more rapid and sustained development through a strengthening and broadening of their economies. The last-mentioned problem will require action in many fields and over many years by both the primary exporting countries and the industrial countries, separately and in concert, including readier access to the markets of the developed countries for the products of the developing countries and an appropriate and sustained flow of technical and financial assistance to the developing countries. The Fund considers that its activities can provide valuable assistance in helping to establish a climate within which longer-term measures can be more effectively pursued.

(12) The Fund will review this decision in the light of experience and developing circumstances.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
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FOR
AGENDA

Secretary - Bank

Room 211

#12

SM/66/97

August 5, 1966

To: Members of the Executive Board
From: The Secretary
Subject: Compensatory Financing: More Systems of Repurchase

The attached memorandum has been prepared for consideration by the Executive Directors in connection with the Board's resumed discussion of compensatory financing, presently scheduled for Monday, August 15.

Att: (1)

Other Distribution:
Department Heads
Division Chiefs

INTERNATIONAL MONETARY FUND

Compensatory Financing: More Systems of Repurchase

Prepared by the Research and Statistics Department

August 4, 1966

The discussion, which took place at Executive Board Meeting No. 66/62 of July 20, of the various alternative systems of repurchase set forth in SM/66/86 gave rise to a number of suggestions for new or modified systems. These are discussed below and their performance evaluated in the light of tables and charts.

On page 1 of SM/66/86 five systems were listed and described. In the present paper three additional systems are considered, as follows:

(6) A variant of system (5) of SM/66/86. Repurchase would take place in five annual instalments. However, a member, in applying for a drawing under the compensatory facility could, if it so desired, request that half of any repurchases of compensatory drawings taking place over the preceding year should be subtracted from exports for the purpose of calculating the export shortfall. Such a request would be granted only where condition (c) described at page 25 of SM/66/77 (or Mr. Lieftinck's alternative condition described below) was met, and only where the resulting shortfall exceeded 2 per cent of the member's quota. (The lastmentioned feature is referred to in what follows as "the 2 per cent cut-off.")

(7) A combination of systems (2) and (5) of SM/66/86, as suggested by Mr. O'Donnell. As in the "mixed system" of SM/65/101 (system 2), any export excesses occurring in the first three years after a shortfall for which a compensatory drawing had been made would be used to repay the drawing; any amount remaining unpaid three years after the drawing would be repaid in equal instalments in the fourth and fifth years. However, in applying for any new compensatory drawing, the member could, if it wished, request that any instalment repayments occurring in the year preceding the drawing be subtracted from exports in computing the shortfall, subject to the same 2 per cent cut-off and the same conditions as under system (6).

(8) A modification of system (2) that has been suggested, under which half of any export excess occurring in the first three years following a shortfall for which a drawing had been made would be used for repurchase, while in the fourth year either half the amount still outstanding or half the excess, whichever is the greater, would be used for repurchase, the remainder being paid in the fifth year.

The tables and graphs appended to this paper are based either on the actual export experience of 48 countries over the period 1951 to 1964, or else on the hypothetical export experience of two notional countries A and B, introduced in SM/66/86. In country A, exports are assumed to fall suddenly from a plateau of 1,000 per annum to a plateau of 900 per annum. In country B, exports are assumed to develop, over a 29 year period, with the sort of fluctuations and growth trends typically found to exist in the actual experience of primary producing countries (though probably with fewer periods of relative calm than in the average country.)

In Table 1, the performance of repurchase systems (1), (6), (7) and (8), as measured by the usual statistical tests, is considered in relation to (a) the export experience of the 48 countries over the period 1951-64 and (b) that of notional country B.

In Table 2, the same sort of data relating to notional countries A and B that was given in Table 2 of SM/66/86 for systems (1) to (5) are given for systems (6) to (8).

In Table 3, data on drawings outstanding for country B are given for systems (1) to (8).

In Charts 1 to 3, data relating to systems (6) to (8) are given for notional countries A and B. Chart 1 illustrates systems (6) and (7) for country A; system (8) is not shown for country A since the chart would be identical to the top panel of Chart 1 in SM/66/86. Charts 2 and 3 show data relating to systems (7) and (8), respectively, for country B; system (6) is not shown for country B, since export availabilities differ only minutely from those for system (5), given in Chart 7 of SM/66/86.

Re System (6)

The introduction of the 2 per cent cut-off, while it makes no perceptible difference to the approximation ratio or the smoothness ratio for the 48 countries, shortens the period of continuously outstanding drawings substantially in the case of country A and slightly also in the case of country B.

At the Executive Board meeting of July 20 the point was made, on the basis of Table 2 of SM/66/86, that system (5) had the disadvantage, illustrated in the case of country B, of leaving drawings outstanding for a long period. From Table 3 of the present paper it can be seen that in system (6), (i.e., system (5) with the 2 per cent cut-off) the period of continuous use is not significantly longer than in system (1) (the present 3 to 5 years repurchase system), while the amounts outstanding are in most years significantly lower. From Table 1 it can be seen that the approximation and smoothness ratios are somewhat lower for system (6) than for systems (7) or (8) (though higher than for system (1)) when these systems are applied to the 48 countries, but that the contrary is true when the systems are applied to the case of country B. Though country B is only a notional country, this

result is not without significance since the length of the period covered (29 years) allows the effects of repurchase systems to work themselves out more fully than the period of 14 years for which the data for 48 countries are available.

Re System (7)

This system, as already indicated, gives relatively good results on the statistical criteria for the 48 countries. However, the staff consider it should be rejected partly because it involves superimposing the complications of the refinancing procedure on an already somewhat complicated system of repurchase, and partly because it does nothing to meet the objection to fully compensatory repurchases that was mentioned on page 23 of SM/66/77. There it was stated that "Countries might occasionally find it difficult to repurchase compensatory drawings to the full extent of any excess of actual over trend value of exports, partly because an expansion in exports would probably entail some increase in import requirements, and partly because the obligation to repay would not be known with certainty until after the event."

Re System (8)

This system also gives relatively good statistical results for the 48 countries--slightly better results, indeed, than the mixed system of SM/65/101, of which it is a modification, as can be seen by comparing Table 1 of the present paper and Table 1 of SM/66/86. It also does something to meet the objection to fully compensatory repurchase set forth above. On the other hand, it gives less predictability than system (6) and does nothing to meet the considerations underlying the UNCTAD resolution mentioned at page 21 of SM/66/77.

Taking into account a wide variety of considerations, both those mentioned in SM/66/77 and those which have arisen in discussions at Executive Board meetings, the staff would recommend system (6) as on the whole most suitable for adoption, with system (8) as a second choice. Either would actually be preferable to the present system (system (1)). The compensatory facility is intended to assist countries to maintain their economies on an even keel, and this objective is promoted by bringing the principle of compensation into the treatment of export excesses as well as shortfalls. While the existence of a three years period of grace for repurchase undertakings has its justification in relation to payments deficits that arise from maladjustments that take time to correct, it has little justification in relation to short-term export fluctuations. Yet the temptation to withhold repurchase till it becomes inevitable may often be too strong to be resisted.

The last-mentioned consideration is of importance also in considering the suggestion made at the Executive Board Meetings of July 6 and July 20 that members making use of the compensatory drawing facility should be allowed to choose whether they should make repurchases in accordance with a system chosen especially for compensatory drawings or under the 3 to 5

year system applicable to ordinary drawings. This obviously cannot mean that a member would be allowed to switch from one repurchase system to another according to its current advantage during the lifetime of a compensatory drawing. For example, it cannot mean that a member, though it had export excesses, could refrain from making repurchases during the first three years after such a drawing under system (1), and then in the fourth and fifth year move over to system (6) so as to take advantage of its smaller instalments or its refinancing privileges. If the proposal is understood in the sense that, at the moment of the drawing the member could choose irrevocably which repurchase system it would apply, then it is doubtless feasible in a technical sense. It is, however, open to the objection that just those members that experience the greatest difficulty in keeping their economies on an even keel would be most tempted to postpone repurchases as long as possible by adopting system (1). The proposals now under consideration for reforming the compensatory facility are best regarded as a package. The additional scope for drawings afforded by the extension of the limit to 50 per cent of quota strengthens the case for a system of repurchase that ensures that part at least of export excesses are devoted to repurchase.

At the Executive Board Meeting of July 20, it was suggested that the phrase "is found to have been following policies reasonably conducive to the development of its exports" in sub-paragraph (iv) of page 20 of SM/66/77, which deals with the conditions for making compensatory drawings in the second 25 per cent of quota, should be replaced by some phrase referring to the balance of payments as a whole and closer to the present terms of drawing in the first credit tranche. If this were done, analogous substitutions would presumably be made in sub-paragraph (c) of page 25 and in paragraph 6 on page 29 of that paper, and would be applicable to repurchase systems (3), (5) and (6).

It is important in both contexts that in any rephrasing the condition should remain one with respect to past rather than to prospective policies, so that requests for compensatory drawings could be handled without the delays involved in special consultations or missions. If, therefore, it is decided to adopt a phrase relating to the balance of payments as a whole rather than to exports alone, it might run as follows: "is found to have been making reasonable efforts to solve its balance of payments problems."

Table 1. Compensatory Financing: Effect of Various Repurchase Systems,
48 Countries (1951-64) and Hypothetical Country B^{1/}

(Qualified 50 Per Cent of Quota Limit)

	48 Countries			Hypothetical Country B		
	Approximation ratio ^{2/}	Smoothness ratio ^{3/}	Average drawings outstanding ^{4/}	Approximation ratio ^{2/}	Smoothness ratio ^{3/}	Average drawings outstanding ^{5/}
System 1 ^{6/}	.035	.047	.45	.123	.148	6.2
System 6 ^{7/}	.041	.060	.38	.135	.160	4.5
System 7 ^{8/}	.042	.068	.28	.120	.137	2.5
System 8 ^{9/}	.043	.071	.32	.120	.141	3.1

1/ Weights of .50, .25 and .25 applied to years t, t-1, and t-2, respectively, for estimating calculated norm. 100 per cent compensation of calculated shortfall.

2/ Proportionate decline in root mean square percentage deviation of export availabilities from trend value of exports.

3/ Proportionate decline in root mean square percentage deviation of export availabilities from trend value of such availabilities.

4/ Average for all years of total amounts outstanding, in billions of U.S. dollars.

5/ Average for all years of total amounts outstanding, in units. (Exports of country B vary between 100 and 238 units, and its quota is assumed to rise in quinquennial steps from 20 to 40 units.)

6/ Amounts outstanding at end of three years are assumed to be repaid one half in the fourth and one half in the fifth year after drawing, regardless of level of exports.

7/ Repayment in five equal instalments, beginning in the year following the shortfall year: one half of repayments on past drawings is deducted from exports for the purpose of computing shortfalls, provided that the resulting shortfall exceeds 2 per cent of quota.

8/ 100 per cent of export excesses applied to repayment in the first three years; remaining amounts to be repaid in two equal instalments in the fourth and fifth years. One half of any fourth-year or fifth-year repayment is deducted from exports for the purpose of computing shortfalls, provided that the resulting shortfall exceeds 2 per cent of quota.

9/ 50 per cent of export excesses applied to repayment in the first three years. In the fourth year either half the amount outstanding at the end of the third year or half of the export excess (whichever is the greater) applied to repayment. In the fifth year any amount outstanding at the end of the fourth year repaid.

1
5
1

Table 2. Compensatory Financing: Effect of Various Repurchase Systems for Two Hypothetical Countries

Year	Exports	Standard Norm ^{1/}	System 6 ^{2/}			System 7 ^{3/}			System 8 ^{4/}		
			Drawings	Repurchases	Availabilities	Drawings	Repurchases	Availabilities	Drawings	Repurchases	Availabilities
<u>Hypothetical Country A</u>											
1	1,000	1,000	-	-	1,000.0	-	-	1,000.0	-	-	1,000.0
2	1,000	1,000	-	-	1,000.0	-	-	1,000.0	-	-	1,000.0
3	1,000	1,000	-	-	1,000.0	-	-	1,000.0	-	-	1,000.0
4	900	950	50.0	-	950.0	50.0	-	950.0	50.0	-	950.0
5	900	925	30.0	10.0	920.0	25.0	-	925.0	25.0	-	925.0
6	900	900	8.0	16.0	892.0	-	-	900.0	-	-	900.0
7	900	900	8.8	17.6	891.2	-	-	900.0	-	-	900.0
8	900	900	9.7	19.4	890.3	12.5	25.0	887.5	-	25.0	875.0
9	900	900	10.6	21.3	889.4	18.7	37.5	881.2	-	37.5	862.5
10	900	900	6.7	13.4	893.3	6.2	12.5	893.7	-	12.5	887.5
11	900	900	4.4	8.8	895.6	-	-	900.0	-	-	900.0
12	900	900	4.0	8.0	896.0	-	6.2	893.7	-	-	900.0
13	900	900	-	7.1	892.9	7.8	15.6	892.2	-	-	900.0
14	900	900	-	5.2	894.8	6.2	12.5	893.7	-	-	900.0
15	900	900	-	3.0	897.0	-	3.1	896.9	-	-	900.0
16	900	900	-	1.7	898.3	-	-	900.0	-	-	900.0
17	900	900	-	0.8	899.2	-	3.9	896.1	-	-	900.0
18	900	900	-	-	900.0	-	7.0	893.0	-	-	900.0
19	900	900	-	-	900.0	-	3.1	896.9	-	-	900.0
<u>Hypothetical Country B</u>											
1	105	101.2	-	-	105.0	-	-	105.0	-	-	105.0
2	109	105.7	-	-	109.0	-	-	109.0	-	-	109.0
3	100	103.5	3.5	-	103.5	3.5	-	103.5	3.5	-	103.5
4	101	102.7	2.1	0.7	102.4	1.7	-	102.7	1.7	-	102.7
5	115	107.7	-	1.1	113.9	-	5.2	109.7	-	3.6	111.4
6	120	114.0	-	1.1	118.9	-	-	120.0	-	1.6	118.4
7	135	126.2	-	1.1	133.9	-	-	135.0	-	-	135.0
8	100	113.7	6.9	1.1	105.7	5.7	-	105.7	5.7	-	105.7
9	135	126.2	-	1.8	133.2	-	5.7	129.2	-	4.4	130.6
10	125	121.2	-	1.4	123.6	-	-	125.0	-	1.4	123.6
11	120	125.0	5.7	1.4	124.3	5.0	-	125.0	5.0	-	125.0
12	140	131.2	-	2.5	137.5	-	5.0	135.0	-	4.4	135.6
13	160	145.0	-	2.5	157.5	-	-	160.0	-	0.6	159.4
14	170	160.0	-	1.1	168.9	-	-	170.0	-	-	170.0
15	100	132.5	8.6	1.1	107.5	7.5	-	107.5	7.5	-	107.5
16	130	132.5	3.9	2.9	131.1	2.5	-	132.5	2.5	-	132.5
17	115	115.0	1.3	2.5	113.7	-	-	115.0	-	-	115.0
18	125	123.7	-	2.8	122.2	-	1.2	123.7	-	0.6	124.4
19	130	125.0	-	2.8	127.2	-	5.6	124.4	-	3.4	126.6
20	130	128.7	-	2.8	127.2	0.3	3.1	127.2	-	4.7	125.3
21	144	137.0	-	1.0	143.0	-	0.3	143.7	-	1.2	142.7
22	160	148.5	-	0.3	159.7	-	-	160.0	-	-	160.0
23	192	172.0	-	-	192.0	-	-	192.0	-	-	192.0
24	218	197.0	-	-	218.0	-	-	218.0	-	-	218.0
25	218	211.5	-	-	218.0	-	-	218.0	-	-	218.0
26	200	209.0	9.0	-	209.0	9.0	-	209.0	9.0	-	209.0
27	232	220.5	-	1.8	230.2	-	9.0	223.0	-	5.7	226.2
28	208	212.0	4.9	1.8	211.1	4.0	-	212.0	4.0	-	212.0
29	238	229.0	-	2.8	235.2	-	4.0	234.0	-	4.5	233.5

1/ Weights of 0.50, 0.25, and 0.25 applied to years t, t-1, and t-2, respectively.

2/ Repayment in five equal instalments, beginning in the year following the shortfall year: one half of repayments on past drawings is deducted from exports for the purpose of computing shortfalls, provided that the resulting shortfall exceeds 2 per cent of quota.

3/ 100 per cent of export excesses applied to repayment in the first three years; remaining amounts to be repaid in two equal instalments in the fourth and fifth years. One half of any fourth-year or fifth-year repayment is deducted from exports for the purpose of computing shortfalls, provided that the resulting shortfall exceeds 2 per cent of quota.

4/ 50 per cent of export excesses applied to repayment in the first three years. In the fourth year either half the amount outstanding at the end of the third year or half of the export excess (whichever is the greater) applied to repayment. In the fifth year any amount outstanding at the end of the fourth year repaid.

Table 3. Hypothetical Country B: Amounts Outstanding Under Various Repurchase Systems

Year	System 1 ^{1/}	System 2 ^{2/}	System 3 ^{3/}	System 4 ^{4/}	System 5 ^{2/}	System 6 ^{6/}	System 7 ^{7/}	System 8 ^{8/}
1	-	-	-	-	-	-	-	-
2	-	-	-	-	-	-	-	-
3	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
4	5.2	5.2	5.3	4.8	4.9	4.9	5.2	5.2
5	5.2	-	4.1	3.7	3.8	3.8	-	1.6
6	5.2	-	2.9	2.6	2.7	2.7	-	-
7	3.5	-	1.7	1.5	1.5	1.5	-	-
8	9.2	5.7	7.4	7.3	7.3	7.3	5.7	5.7
9	8.4	-	5.6	5.5	5.5	5.5	-	1.4
10	8.4	-	4.1	4.1	4.1	4.1	-	-
11	13.0	5.0	9.2	7.7	8.4	8.4	5.0	5.0
12	8.8	-	6.5	5.3	5.9	5.9	-	0.6
13	4.6	-	3.8	2.9	3.4	3.4	-	-
14	4.6	-	2.6	1.9	2.3	2.3	-	-
15	12.1	7.5	10.1	9.4	9.8	9.8	7.5	7.5
16	12.3	10.0	12.6	10.3	10.8	10.8	10.0	10.0
17	12.3	10.0	12.6	8.5	9.6	9.6	10.0	10.0
18	12.3	8.7	11.3	6.0	7.0	6.8	8.7	9.4
19	7.4	3.7	7.4	3.5	4.2	4.1	3.1	5.9
20	1.2	1.2	6.2	1.0	1.5	1.3	0.3	1.2
21	-	-	3.5	.2	0.4	0.3	-	-
22	-	-	2.0	.1	0.1	-	-	-
23	-	-	1.0	-	0.1	-	-	-
24	-	-	0.5	-	-	-	-	-
25	-	-	-	-	-	-	-	-
26	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
27	9.0	-	7.2	7.2	7.2	7.2	-	3.2
28	13.0	4.0	11.2	9.8	10.3	10.3	4.0	7.2
29	13.0	-	8.2	7.4	7.5	7.5	-	2.7

^{1/} Amounts outstanding at end of three years are assumed to be repaid one half in the fourth and one half in the fifth year after drawing, regardless of level of exports.

^{2/} 100 per cent of export excesses applied to repayment in the first three years. In the fourth year either half the amount outstanding at end of the third year or the export excess (whichever is the greater) applied to repayment. In the fifth year any amount outstanding at the end of the fourth year repaid.

Table 3 (concluded). Hypothetical Country B: Amounts Outstanding Under Various Repurchase Systems

3/ Repayment in five equal instalments, beginning in the year following the shortfall year: repayments on past drawings are deducted from exports for the purpose of computing shortfalls.

4/ Repayment in five equal instalments, beginning in the year following the shortfall year: for purposes of computing shortfalls, repayments on past drawings are deducted from exports, and average repayments (over the five-year period on which the norm is based) arising from these past drawings are deducted from the practical norm.

5/ Repayment in five equal instalments, beginning in the year following the shortfall year: one half of repayments on past drawings is deducted from exports for the purpose of computing shortfalls.

6/ Repayment in five equal instalments, beginning in the year following the shortfall year: one half of repayments on past drawings is deducted from exports for the purpose of computing shortfalls, provided that the resulting shortfall exceeds 2 per cent of quota.

7/ 100 per cent of export excesses applied to repayment in the first three years; remaining amounts to be repaid in two equal instalments in the fourth and fifth years. One half of any fourth-year or fifth-year repayment is deducted from exports for the purpose of computing shortfalls, provided that the resulting shortfall exceeds 2 per cent of quota.

8/ 50 per cent of export excesses applied to repayment in the first three years. In the fourth year either half the amount outstanding at the end of the third year or half of the export excess (whichever is the greater) applied to repayment. In the fifth year any amount outstanding at the end of the fourth year repaid.

CHART 1

HYPOTHETICAL COUNTRY A

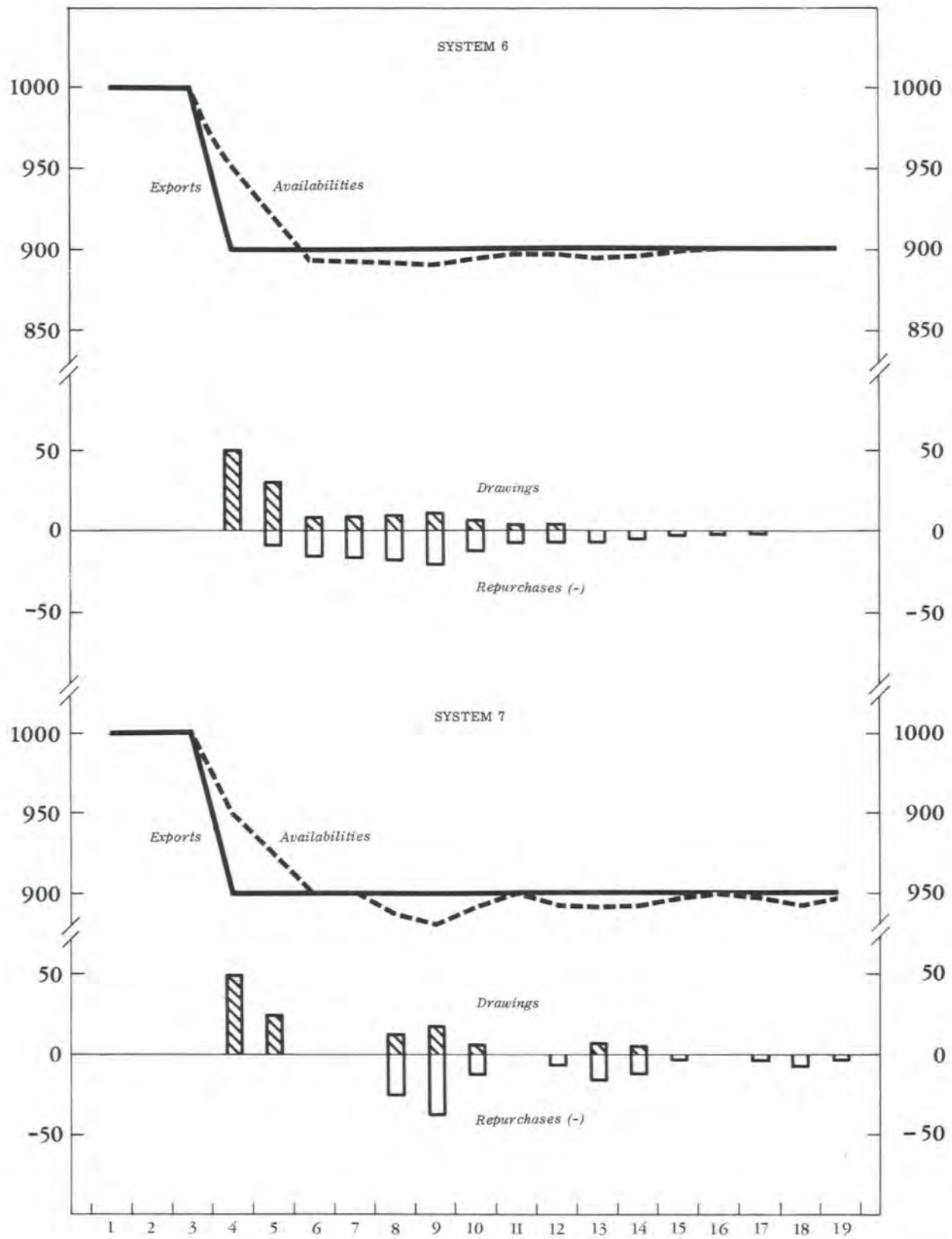


CHART 2
HYPOTHETICAL COUNTRY B

SYSTEM 7

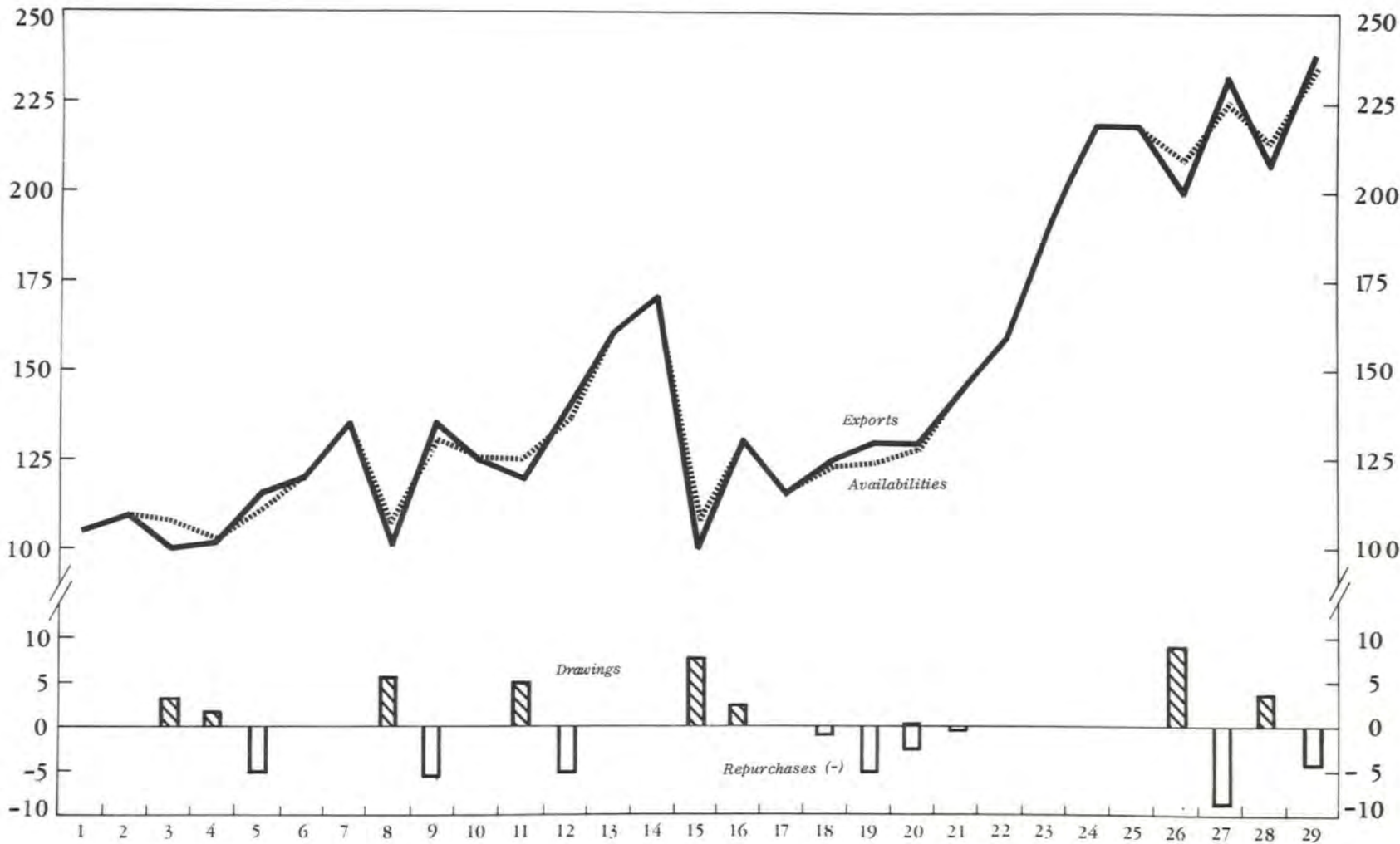
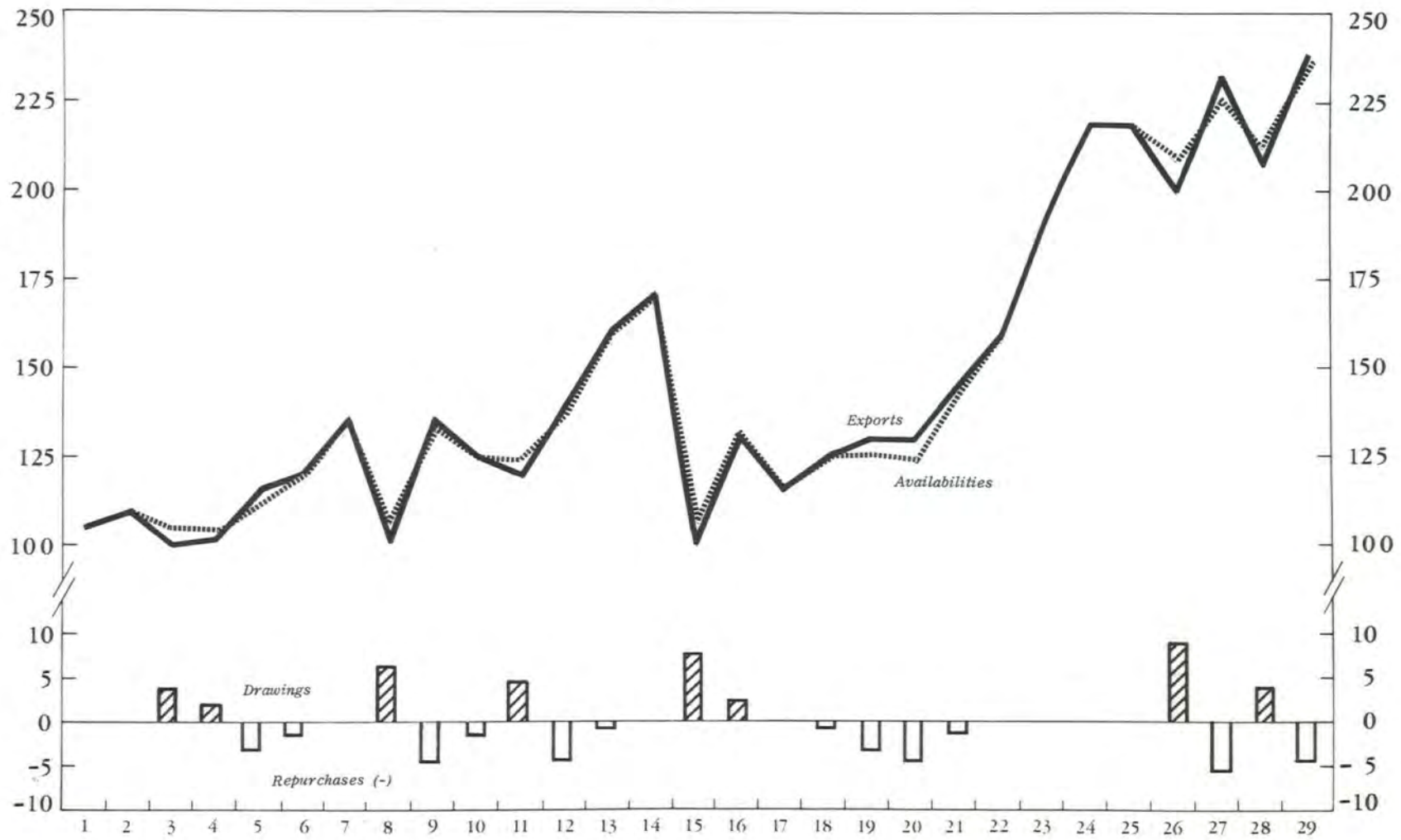


CHART 3
 HYPOTHETICAL COUNTRY B

SYSTEM 8



INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

These
pencil
remarks?

Waters 11-12

May be
should be
should be
by 11-12

must interpret
of them is
correctly -
recalled for

ROUTING SLIP

Date
Aug. 31, 1966

OFFICE OF THE PRESIDENT

Name

Room No.

Mr. Friedman

1223

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

Comment

Per Our Conversation

Full Report

Recommendation

Information

Signature

Initial

Send On

Remarks

Mr. Woods returned this from Rome on 23rd and asked that you kindly tell him what the import of this is when he returns.

B. Schmitt

From

ROUTING SLIP		Date August 8, 1966	
NAME		ROOM NO.	
Mr. Wishart <i>JW</i>		1220	
<i>Mr. Woods (PORTUGAL)</i>			
<i>M. Hoffman thought - Jan might like to see this now.</i>			
<i>This copy and another to ISF</i>			
To Handle		Note and File	
Appropriate Disposition		Note and Return	
Approval		Prepare Reply	
Comment		Per Our Conversation	
Full Report		Recommendation	
Information		Signature	
Initial		Send On	
REMARKS			
<p>Mr. Woods to see <i>were sent over by Mr. Southall.</i> <i>You can destroy when you have read it as ISF has his own copy.</i> <i>JW 8 AUG.</i></p>			
From		MLHoffman	

1974

Dear Mr. [unclear]

Thank you for your letter of 10/17/74

re: [unclear]

AsK 157 to
for we want the
support re [unclear]

~~Dear Mr. [unclear]~~

Jan 24 1975

Please pass to 157

SM/66/95

August 4, 1966

To: Members of the Executive Board
From: The Secretary
Subject: Supplementary Financing and the Fund

Attached for the information of the Executive Directors is a memorandum prepared by the staff concerning Supplementary Financing and the Fund.

Att: (1)

Other Distribution:
Department Heads
Division Chiefs

INTERNATIONAL MONETARY FUND

Supplementary Financing and the Fund

Prepared by the Research and Statistics Department
in Consultation with the Exchange and Trade Relations
Department, the Area Departments, and the Legal Department

August 4, 1966

Introduction

The staff report (SM/66/55) on the meeting of the UNTAD Committee on Invisibles and Financing Related to Trade held in April of this year pointed out that the proposals made in the IBRD staff study on Supplementary Financing Measures, which had been discussed in the UNTAD Committee on Invisibles and are to be examined by a group of government experts set up by that Committee, "have profound implications not only for the Fund's compensatory financing facility but for the general financial operations and other activities of the Fund."^{1/}

The present paper is designed to explore briefly some of these implications. It is not designed to review the over-all merits of the proposals. Any exploration of their implications for the Fund, however, necessarily involves touching on a wide range of problems. Attention to these problems should in no way be allowed to obscure the difficulties faced by the developing countries at this time, and, in particular, should in no way detract from the recognition of their need for increased amounts and easier terms of assistance.

UNCTAD Resolution on Supplementary Financial Measures

The Study by the Bank staff took its start from Recommendation A-IV-18, which, having been originally proposed by the United Kingdom and Sweden, was adopted by the United Nations Conference on Trade and Development in June 1964. A copy of this Recommendation is attached at Annex I.

As will be seen, the Recommendation invited the Bank to study the feasibility of a scheme under which the IDA, using additional resources, would provide longer-term assistance to developing countries in the form

^{1/} SM/66/55, page 2.

of non-reimbursable transfers or of contingent loans on concessional terms to the extent necessary to avoid disruption of development programs on occasions when:

- (a) export proceeds (including, where appropriate, invisibles) had fallen below "reasonable expectations," and
- (b) there had been actual or attempted recourse to the IMF's compensatory facility but this had, for some reason, proved inadequate.

Illustrative reasons for possible inadequacy of the Fund's facility under (b) above are cited in the Recommendation. They are:

- (i) that following a compensatory drawing in one year exports might fall below reasonable expectations in subsequent years;
- (ii) that when drawings had to be repaid, exports might not have recovered sufficiently for this to be possible without disruption of development;
- (iii) that there might be a significant shortfall in exports which the IMF judged to be not of a short-term nature and which it, therefore, refused to finance.

These illustrations, especially (i) and (iii), appear to assume that the Fund employs a definition of export shortfall similar to that suggested in the Recommendation, but might be unable to provide adequate finance because the shortfalls, so defined, were expected to, or did in fact, go on too long. In reality, however, as will become clearer below, the Fund's concept of shortfall from medium-term trend as at present defined is substantially different from that of "shortfall from reasonable expectations" however interpreted, and very different from the latter concept as interpreted in the Study.

The Bank Staff Scheme

Executive Directors have received copies of the printed version of the Study, *Supplementary Financial Measures*, produced by the Bank staff in response to the foregoing Recommendation. Such of the features of the scheme proposed in that study as appear most relevant to the operations of the Fund are set forth below. Page references are to the printed document, henceforth referred to as the "Study."

A. Purpose

In harmony with the UNCTAD Recommendation A-IV-18, the objective to which the Study addresses itself is that of "preventing the disruption of sound development programs or policies by unexpected shortfalls in export earnings which are of a nature or duration which cannot adequately be dealt with by short-term balance of payments support," or, more precisely,

that of providing developing countries "with a ready source of long-term assistance to enable them to maintain internationally approved development programs in the face of unforeseen adverse export movements that are beyond their control and beyond their ability to offset from reserves or to finance on a short-term repayable basis." (p. 2) The emphasis on "programs" is important. While "development" is a continuous and continuously adjusted process, "development programs," partly for reasons of publicity and legislative convenience, are made at discrete intervals covering a number of years at a time, and their frequent adjustment is difficult. |?)

B. Administration

The scheme is to be administered by an (unspecified) international agency (hereinafter referred to as the "Agency"), working in close cooperation with the IBRD and the IMF.

C. Nature of Export Shortfalls to be Financed

The scheme is one for the prompt, partial and conditional financing of the export shortfalls of the developing countries. The first question is how these shortfalls are defined. The UNCTAD Recommendation had defined them as "shortfalls from reasonable expectations." This implied that the shortfall would be measured not, as in the Fund scheme, from some currently estimated export trend but from some expected level of actual exports. The Recommendation left it vague how far prior to the time of the shortfall the expectation was to have been formed, and to whom it was to appear "reasonable." The interpretation adopted in the Study is that export projections covering a four or five year period should be made simultaneously with and as part of a development program which, with its associated policies, would be agreed between the country and the Agency. This implies that the export projections from which the shortfalls are measured would be such as had appeared reasonable at a point of time preceding the shortfall by anything from a few months to more than five years. By contrast, the compensatory financing shortfall of the Fund is measured from a trend value consisting of the average exports over a five-year period centered on the shortfall year, as estimated after the end of that shortfall year. The estimation of the Fund shortfall thus involves forecasting exports less than two years ahead, and the influence on the trend estimate of such forecast data is reduced by the inclusion in the trend of figures for past exports.

An important feature of the Supplementary Financing Scheme is its cumulative aspect. Strictly speaking, what is to be financed (to the extent appropriate) is not the shortfall for any particular year but the net cumulative shortfall for the projection period as a whole. Before any assistance was provided with respect to a shortfall for any particular year, an allowance for any "overages" or excesses of actual over projected exports that might have occurred earlier in the projection period would be subtracted from the shortfall, and any overages occurring later would entail repayments of assistance provided earlier. Overages would not, however, be carried over from one projection period to another.

On the assumption that projected exports would probably follow a less uneven course within the projection period than would actual exports, this arrangement would lead to some smoothing out of current export availabilities (export receipts plus financing) within that period provided that shortfalls accrued throughout the period or in its early years; it would, however, have little or no effect of this kind if overages occurred throughout the period or in its early years.

Moreover, if export availabilities are made to approximate projected exports--whether by financing of shortfalls or repayment of overages--in the last years of one projection period, they may change abruptly between then and the first years of the next projection period.

D. Degree of Compensation of Shortfalls

Refer to your work Ag. J. ?

It is not envisaged that the scheme would compensate export shortfalls, even on the cumulative basis described above, in full. In the first place, as discussed below, there would be some sort of prior agreement between Agency and country as to "how much of a shortfall in expected earnings could be experienced without disrupting the development program." (p. 7) Secondly, "It would be expected that as far as possible a part or even all of the shortfall would be offset by use of the country's own reserves or by drawings on the IMF. To the extent that export shortfalls, as defined under the Scheme, were to overlap shortfalls under the IMF compensatory financing facility, the IMF should, if possible, be the source of help. Furthermore, the member might well be in a position to combine drawings under the compensatory financing facility with drawings under the ordinary tranche policy of the Fund." (p. 7) "In addition, the Agency would take into account the possibilities of using other sources--for example, the emergency foreign trade loans of the U.S. Export-Import Bank, the program loans and the Food for Peace Program of the U.S. Agency for International Development, the World Food Program, etc.--for offsetting shortfalls," (p. 8)

? It will be seen that the Scheme is intended to provide only residual financing of shortfalls as defined in the proposal. "After other sources of finance had been taken into account, the Agency would provide the remaining amount needed to prevent disruption of the development program, according to the prior agreement with the country." (p. 8) Given the need to explore all other sources of finance, the scheme could not indicate what proportion of net shortfalls countries would be expected normally to leave uncompensated or to meet out of their own resources or out of national or international financial assistance that would have been available to them in any case. On p. 64 of the Study, it is estimated that total gross shortfalls for all developing countries over the 1959-63 period may have amounted to \$1.6 billion per annum, which is equivalent, net of overages, to \$1.4 billion per annum. However, it is suggested (p. 13) that the net financial requirement for an initial experimental period of 5 years might be \$300-\$400 million per annum. Part of this difference is accounted for by the assumption that the projections on which the shortfalls

are based would improve, and that some developing countries would be unable to qualify under the Scheme; however, the allowance for non-financing of shortfalls or their financing with existing resources is presumably substantial.

E. Nature of Performance Criteria

It is an important characteristic of the arrangements for Supplementary Financing put forward in the Study that they attempt to combine conditionality in the provision of assistance with some degree of assurance to the recipient that assistance will in fact be forthcoming. This object is to be accomplished by providing that assistance from the Agency will be conditional on the member's implementation of "an agreement on development policies" to be concluded with the Agency in advance of the occurrence of the shortfall. "A member would qualify for assistance under the Scheme as long as its agreement with the Agency on development policies was being carried out. In case a member were not living up to agreed policies, it would be informed by the Agency that it would no longer be entitled under the Scheme to assistance in case of subsequent export shortfalls." (p. 12)

The scope of this prior agreement is exceedingly wide. It is intended to cover:

- (i) the country's export expectations,
- (ii) projections of all the other principal elements in its balance of payments including imports, reserve use, and external financing,
- (iii) its development program, with particular reference to the public sector.

On all these issues the agreement would cover not only projections but the policies required to implement them. This is explicit with respect to exports and development planning and is strongly suggested (see p. 9) for balance of payments matters also, at least as regards "major criteria and policies."

The agreement would also cover:

- (iv) a judgment on how much of a (hypothetical) shortfall in expected earnings could be experienced without disrupting the development program, and
- (v) the feasible adjustments to unexpected shortfalls without disrupting the agreed development program, including use of available resources and other sources of external credit." (p. 8)

It appears to be envisaged that all of these topics would be dealt with, to some extent, in an initial agreement between the country and the Agency at (or before) the beginning of each projection (planning) period, though it is difficult to see how policies on (ii), (iv) and (v), applicable to the period as a whole, could be established at that time in other than vague terms. Since, however, it is accepted that "Economic policies require revisions in response to changing circumstances and no agreement on specific issues can remain valid for the duration of a five-year plan," it is envisaged that "the policy package would not be frozen at the time of the initial consultation" and it is proposed that consultations should take place at appropriate intervals (probably annually) between the member and the Agency, "each having the right to initiate discussions looking to a new agreement on appropriate policies and each remaining bound by an outstanding agreement if no such discussion is underway. The financing plan and balance of payments projection agreed on at the start of the period would also have to be reviewed at these times." (p. 10) This formulation leaves it unclear whether the obligations incurred in consideration of the initial agreement, including the obligation to compensate shortfalls from the initial projection, remain effective only until one of the parties has asked for a new agreement, or until discussions to this end have got underway, or, finally, until a new agreement has been reached. The wording on p. 12, however, ("A member would qualify for assistance under the Scheme as long as its agreement with the Agency on development policies was being carried out") would support the lastmentioned interpretation. Moreover, from what is said on pages 42 and 52 of the Study, it would appear that revisions in export expectations would be of somewhat infrequent occurrence.^{1/} On the other hand, it is envisaged that the adjustment measures (point (v) above) would be adapted from time to time, and the point is made that "a rolling plan, that is, a plan revised every two or three years but each time for a period of four or five years ahead--may be the most effective type of planning in the right circumstances." (p. 43)

Finally, it is proposed that there would be consultations at the time of the shortfall "only ... to ensure that other available sources of financing were being used and that feasible adjustment measures not endangering the development program were being taken." (p. 10)

^{1/} e.g., "... the duration of export projections depends on the duration of the plan or program of which they are an integral part, which, in turn, depends on a large variety of factors including structural changes in export demand." (p. 42) "Adverse export movements reduce the capacity to import and depress incomes with the consequent depression of savings or government revenues, but generally do not invalidate the planned pattern of resource allocation." "... it is generally not possible to judge whether a particular export shortfall is a temporary event or the beginning of a new trend. (See pages 40-41.) So long as there is such uncertainty, it will be more sensible to adhere to the carefully prepared development program than to undertake quick alterations." (p. 52)

F. Terms of (Residual) Financing

As is stated on p. 59 of the Study, "Under the Scheme, the Agency should base the terms of its finance--the rate of interest as well as maturities--on the over-all financial and economic position of the member. The Agency should take account of factors similar to those considered by the existing international financing agencies." Greater precision is given to this statement by the following sentence from p. 60 of the Study: "By and large, it may prove reasonable to extend assistance under the Scheme on about the same terms at which the country is obtaining development finance for other purposes."

G. Relationship to Certain Points in the UNCTAD Recommendation

The Study emphasizes, and gives a particular interpretation to, certain key features of the UNCTAD Recommendation while giving lesser weight to other features. The features emphasized include the gearing of assistance to (a) shortfalls in exports from "reasonable expectations," and (b) the avoidance of "disruption of development programs." The special interpretation given to these concepts consists in the use made of discrete projection or planning periods, each covering a term of years, though the Recommendation might not have precluded a scheme based on a more continuous process of projection and policy formation.

The elements in the UNCTAD Recommendation given less weight are those which envisage (i) the use of the scheme to finance shortfalls too persistent for the Fund to handle under its compensatory financing facility, and (ii) the refinancing of Fund assistance which falls due for repayment when exports are unsatisfactory. The notion under (i) is largely inapplicable, as a result of the difference in the definition of "shortfall" presently used in Fund practice and in the Study respectively, though on the Study's own definition of shortfall some account of the element of "persistence" is taken through the provision for using "overages" to offset shortfalls within a given projection period.

Interrelation with the Activities of the Fund

From the description given above it would seem that many problems may arise in reconciling the supplementary financing scheme as set forth in the Study, with the functions of the Fund in the balance of payments sphere, and with the principles on which the Fund has, until now, exercised these functions. These problems relate to the Fund's activity as a whole, including its regulatory and consultative functions as well as its financing functions.

The Agency, as already explained, is to make agreements with and apply conditions to, countries desirous of qualifying for supplementary financing assistance on such matters as basic export policies and balance of payments policies in general, and, in the event of unexpected export developments, the measures of balance of payments adjustment to be adopted and the use to be made of the country's reserves and borrowing potential.

distortion - elements essential features of that - only part of it

All these are matters which fall within the purview of the Fund, and are, indeed, at the center of its concern. Unless the Agency and the Fund in dealing with such questions were able to achieve a reconciliation in their criteria and policies, undesirable consequences could easily arise. For example, in the absence of such reconciliation, a member, in dealing with a given export shortfall, might well receive disparate advice from the two international organizations. To the extent that Fund resources were used to finance part of the shortfall, a part being financed by the resources of the Agency, the member might even be faced with two different sets of conditions for financing. Moreover, since the Agency would provide the residual financing, the country would know that any decline in Fund financing due to failure to adhere to Fund terms could be made good by the Agency, provided the Agency's terms were adhered to.

Again, it has to be borne in mind that the supplementary financing proposal is intended to cover only disequilibria arising from shortfalls in exports, including current invisibles, while the Fund's financial assistance covers disequilibria arising from any and all elements in the balance of payments. This would lead to the anomalous situation that whereas in the event of unexpected declines in exports the Agency, being the residual lender, would often be in a position to secure the adoption of its prescriptions regarding the appropriate adjustment policies, in the event of unexpected changes in other elements, e.g., declines in capital inflows or in import-competing production, the Fund, which in that case would be the residual lender, might be in a position to secure the adoption of its--possibly rather different--prescriptions for adjustment.

The Study shows an awareness of the problem of reconciliation referred to above by providing that, in preparing the policy package, "full collaboration would be required with existing international agencies including the IBRD and the IMF." (p. 10) "As a consequence," it is believed, "the financing plan would normally be consistent with the financial policy targets and criteria agreed upon between the country and the international financing agencies."

The extent to which this expectation would be realized so far as the Fund is concerned clearly depends on the precise relationship that would be established between the Fund and the Agency, and on the extent to which the Fund's views as to appropriate adjustment policies would be accepted by the Agency. At the very least, there would be need for a very high degree of coordination between the prescriptions of the Agency--or of the Bank--with respect to appropriate development policies and the prescriptions of the Fund with respect to appropriate balance of payments adjustment policies.

Consideration of certain of the features of the proposed scheme--its emphasis on periodic planning, its procedures for arriving at the policy package, and to a lesser extent its provisions as to the terms of lending--imply an attitude towards the balance of payments adjustment process which differs to some extent from that so far adopted by the Fund. No implication is intended that the Fund's attitude is necessarily right and that of the scheme necessarily wrong, but merely that the marriage of minds described above may not be easily arrived at.

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In the first place, while the injunction laid upon the Fund in Article 1 of its Articles of Agreement to "shorten the duration and lessen the degree of disequilibria in the international balances of payments of members" is to be read together with the acknowledgement, in the same Article, of "the development of the productive resources of all members" as a primary objective of policy, it has been the Fund's practice to urge its members to begin the process of adjusting their claims on resources, whether for investment or for consumption, to unexpected trends in outside forces affecting the balance of payments, as soon as these trends can be recognized and distinguished from temporary fluctuations. The Fund's facility for the compensatory financing of export fluctuations is a particular example of this general policy expressed, because of its semi-automatic nature, in a more formal manner than usual. The aim of this facility is to keep export availabilities (i.e., export receipts plus compensatory drawings minus repurchases) as close as possible to the medium-term trend of export receipts, as currently estimated. The scheme presented in the Study, on the other hand, aims at providing countries with export availabilities that are related to levels largely determined one to five years in advance, and though there is provision for annual consultations in which the country could be urged to hew to some more realistic line, it is not clear that a country reluctant to adopt this advice could be faulted or denied its right to export availabilities on the scale originally envisaged so long as the country was following the policies agreed upon. Again, while the Fund lays emphasis on smoothness and continuity of adjustment, the Study lays greater emphasis on fulfilment of predetermined programs. Perhaps the Fund approach could be criticized for taking too little account of the time lag required for the adjustment of development programs to emergent realities, and that of the Study for laying too much emphasis on long-term forecasts in the balance of payments field and too little emphasis on the dangers of persistence in adhering to a development plan which export developments have shown not to be permanently sustainable.

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The longer the time given to adjust to adverse changes in the balance of payments the more substantial must be the financial assistance provided for meeting such adverse trends. While all causes of disequilibria will affect the ability of a country to sustain its development program, there is a clear possibility, under the Supplementary Financing Scheme, especially if the Fund and the Agency operate under different criteria of adjustment, that too much financial support will be given to development programs in one contingency (export shortfalls) compared with what is given in others.

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Differences of approach between the Fund and the Agency as to the policy aims to be negotiated with member countries are likely to involve differences in character of the negotiations themselves. Even if the policy package, which is the central feature of the Supplementary Financing Scheme, were entrusted entirely to the Fund, so far as balance of payments policies are concerned, it is difficult to see how the Fund could commit itself to quantitative precision regarding the financial and exchange policies required to implement balance of payments projections over a five year period, or could make advance prescriptions as to the appropriate method of adjustment in the face of any of the thousand and one events that might tend to falsify the projections. It is understood that the Bank staff, being aware that quantitative precision in such matters could not be achieved over a five-

at variance with Fund

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year period, had envisaged, in making their proposals, that the initial policy package might include undertakings on the part of the country concerned to follow such recommendations as the Fund might make in subsequent years in consultation with that country with respect to exchange policies and internal financial policies, provided that these were compatible with the objective of maintaining the development program as originally agreed. *##* Quite apart from the problems, already discussed, of reconciling the objective of flexible balance of payments adjustment with the implementation of a predetermined development program, however, countries on their side might well hesitate to commit themselves in advance to adopting whatever methods of adjustment the Fund might later recommend to deal with unforeseen balance of payments difficulties.

So far as balance of payments policies are concerned, therefore, it is not easy to see how the two principal features of the scheme, (a) advance assurance for the countries concerned regarding prospective export availabilities, and (b) assurance for the Agency (and for the countries providing the funds) that suitable policies will be adopted by countries drawing upon the resources of the Scheme, are to be reconciled. It is no accident that, in the Fund's current practice, both advance assurance of financing--by way of standby arrangements--and agreements as to balance of payments policies to be pursued as a condition of such assistance are confined to periods of one, or at most two, years ahead. *by changing the policy...*

It has been a principle of Fund operation not only that Fund resources should be confined to the financing of temporary deficits but also that drawings should be repaid in the medium term, i.e., the deficit should be not only temporary but also reversible. An essential feature of the Supplementary Financing Scheme is that assistance provided to developing countries should be provided on a more or less long-term basis. Clearly there is a much better case for saying that countries should aim to eliminate their deficits in a relatively short period of years than that they should aim thereafter at producing an (equally temporary) surplus in order to permit early repayment. While the Fund does not provide long-term balance of payments financing, it does not follow that balance of payments financing should never have a long repayment period. For example, the conception contained in the UNCTAD Recommendation that compensatory financing that cannot be repaid to the Fund in the short run out of export surpluses might be refinanced on a long-term basis is one that deserves serious consideration. *who wants to draw on deficit...*

It should be clear, however, that this conception could not be extended to the proposition that all Fund drawings by developing countries should be repayable, if at all, only over a very long period without bringing into question the rationale of the membership of these countries in the Fund. This rationale, as well as the proposition that the developing countries have an important need for reserves, is founded in the belief that these countries are not only in need of long-term capital but are also subject to reversible fluctuations which they can properly meet by short-term credit and short-run fluctuations in their reserves. Many of the developing countries have built up their reserves over time, with short-term fluctuations, and have either never used the Fund or used the Fund as it was intended to be used, for periods of a few years only. *12*

Given the various discrepancies between the principles of balance of payments adjustment that have traditionally been applied by the Fund and those explicit and implicit in the supplementary financing scheme, a system under which the proposed new Agency would urge the member to finance as large a part as possible of any shortfall--as defined in the Scheme--and would itself provide residual financing also calls for a certain amount of examination. It is the residual financing which is in a sense decisive for the policy to be followed by a country, and it is for this reason that the Fund, as the international agency bearing primary responsibility in the sphere of balance of payments equilibration, has normally itself played the role of residual financier.

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Where shortfalls in terms of the Fund's compensatory financing scheme happened to coincide in time, though not in magnitude, with shortfalls under the supplementary financing proposal, it might no doubt be possible for a country to draw under the terms of the Fund's facility and then draw further amounts under the supplementary financing scheme. Even in this case, however, the compensatory financing scheme would have missed part of its intention--that of encouraging countries to adjust to the medium-term trend of their exports--and would be serving a purpose other than its own. Still greater difficulties would obviously arise if the Fund were asked to allow an ordinary drawing, in the credit tranches, to help finance a shortfall under the supplementary financing scheme, in the knowledge that the residual financing provided under the scheme would enable the country to disregard the policy conditions of the drawing.

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In conclusion, it may perhaps be instructive to summarize some of the observations made above by asking the question in what essential respects the supplementary financing scheme would differ from the Fund. Both the scheme and the Fund are intended to give countries protection from temporary difficulties in order to enable them to pursue their policy objectives with a minimum of unnecessary disturbance.

No! No!
No!

1. Perhaps the most striking difference between the supplementary financing scheme and the Fund is that the scheme concentrates on one kind of disturbance--export shortfalls--whereas the Fund's resources are available to members to meet temporary disequilibria arising from disturbances in any or all of the items in the balance of payments, including irregularities in the supply of capital or in the need for imports. The latter may often be due to inappropriate financial policies. The Fund will, in that event, reach understandings with the countries concerned as to the policy measures necessary to overcome these payments difficulties but will, assuming these understandings are satisfactory, assist the country in maintaining a reasonable level of imports until the payments difficulties have been overcome. The Fund's compensatory financing facility is only a minor part of the Fund's total assistance to countries within this general framework.

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2. The supplementary financing scheme is based on different criteria of balance of payments adjustment than those applied by the Fund. Many of the difficulties described in this paper would disappear if the criteria of balance of payments adjustment applied by the Fund and the supplementary financing agency were brought into harmony. To the extent that modifications to this end are made in the Fund's own policies, however, they should extend across the whole field of Fund operations. It would be illogical for the Fund to facilitate the maintenance of development programs in the event of unexpected export declines to any greater extent than it is prepared to facilitate their maintenance in the event of other unexpected adversities in the balance of payments.

Agreed

3. Supplementary financing, primarily because it is based on different criteria of adjustment, is likely to be much larger in scale than the Fund. Net Fund drawings by less developed countries have averaged \$120 million a year over the last 10 years for payments difficulties of any kind. Supplementary financing, which addresses itself only to payments difficulties arising from export shortfalls, is expected to amount, on a residual basis, to \$300 to \$400 million a year.

4. Fund drawings are repayable within a 5-year period, although members can make new drawings when their situation and their policies justify such drawings under Fund criteria. Supplementary financing drawings would be repayable on terms similar to those applicable to development finance.

United Nations Conference on Trade and Development
Final Act and Report

Annex A.IV.18

Supplementary Financial Measures

A

The Conference,

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

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

I. Objective

1. The new scheme should aim to deal with problems arising from adverse movements in export proceeds which prove to be of a nature or duration which cannot adequately be dealt with by short-term balance-of-payments support. Its purpose should be to provide longer term assistance to developing countries which would help them to avoid disruption of their development programmes.

II. Principles

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

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

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

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

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

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

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

NOTES

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

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

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

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

B

The Conference also recommends that the continuing machinery recommended by this Conference be invited to study and organize further discussion of the following concepts and proposals for financing put forward by the delegations of the developing countries at the Conference:

1. That a fund be set up, financed by contributions from developed countries, as required, and administered by an appropriate agency of the United Nations:
2. That only developing countries should be eligible to draw from the Fund;
3. That disbursements should be in the form of non-reimbursable transfers and/or contingent loans on concessional terms;
4. That the criteria used in deciding upon claims should be as objective as possible and should include the following:
 - (a) The effect of shortfalls in export earnings and the adverse movements in the terms of trade;
 - (b) The effect on the country's development programme;
5. That to complement this longer term approach, facilities be provided for interim financing, when warranted, to assist the developing countries concerned while the longer term problem is being assessed.