

THE WORLD BANK GROUP ARCHIVES

PUBLIC DISCLOSURE AUTHORIZED

Folder: Irving Friedman UNCTAD Files: New York Meeting on Supplementary Finance, June 23 - July 3, 1969  
- Documents

Folder ID: 1787637

ISAD(G) Reference Code: WB IBRD/IDA 03 EXC-10-4481S

Series: Records of Economic Advisor Irving Friedman

Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

Digitized: June 14, 2013

To cite materials from this archival folder, please follow the following format:

[Descriptive name of item], [Folder Title], Folder ID [Folder ID], ISAD(G) Reference Code [Reference Code], [Each Level Label as applicable], World Bank Group Archives, Washington, D.C., United States.

The records in this folder were created or received by The World Bank in the course of its business.

The records that were created by the staff of The World Bank are subject to the Bank's copyright.

Please refer to <http://www.worldbank.org/terms-of-use-earchives> for full copyright terms of use and disclaimers.



THE WORLD BANK

Washington, D.C.

© 2012 International Bank for Reconstruction and Development / International Development Association or

The World Bank

1818 H Street NW

Washington DC 20433

Telephone: 202-473-1000

Internet: [www.worldbank.org](http://www.worldbank.org)

PUBLIC DISCLOSURE AUTHORIZED

Friedman UNCTAD Files - New York Meeting on  
Suppl. Finance

Je. 23 - Jy. 3, 1969

**DECLASSIFIED**  
WBG Archives

The World Bank Group  
**Archives**



1787637

A1992-017 Other # 5

167584B

Irving Friedman UNCTAD Files: New York Meeting on Supplementary Finance, June 23 -  
July 3, 1969 - Documents



## OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: June 18, 1969

FROM: N. A. Sarma

*N. A. Sarma*

JUN 18 1969

5.30 pm.

SUBJECT: Supplementary Finance: IGG Meeting in New York -  
June 23 - July 3.

The IGG has posed to us a specific question: Whether the Bank Staff Scheme could be implemented by Bank/IDA, within their existing Articles of Agreement, if the Executive Directors so agreed and if finance were made available. Another main question relates to the revision of cost estimates, taking into account available data for recent years.

In the recent DAC informal meeting on Supplementary Finance (June 4) the question was raised whether there have been consultations between the Bank staff and the Fund staff on the relation between S.F. and C.F.F.; Germany and others attach importance to this. If possible, we and the Fund staff should make an agreed statement at the IGG meeting on the subject.

It is, of course, for governments to agree to implement a scheme of S.F.; it is for the Executive Board of the Bank Group to decide whether we should undertake it, if called upon. Very much would depend on the stand taken by U.S.A. and Germany. As I mentioned in my memo to you (June 6) on the Paris meeting, Group B (DAC) member countries are likely to state their respective positions at an early stage of the IGG meeting, so as to facilitate the finalizing of the report. The question of S.F. as an added function of IDA was mentioned by U.S.A., U.K., Switzerland and others. Then, finance for S.F. is to be considered along with the third IDA replenishment. Here it is not any one particular S.F. scheme that is thought of, but recognition of the purpose of S.F. and its administration by IDA on a rather discretionary basis. On each of the above questions, brief notes are attached hereto, in terms of the general discussion I had with you this morning.

*Chelliah*



### Administration by Bank Group

The Intergovernmental Group has posed to us a specific question: Whether the Bank Staff Scheme could be implemented by Bank/IDA, within their existing Articles of Agreement. There is a (draft) paper on this by Mr. Szasz (Feb. 14, 1969). I have talked to Mr. Szasz and he thinks the paper can be circulated if need be. In any case, keeping in mind the background and considerations as described in the paper, the staff attending the session could state the position in terms of the following conclusion of the paper:

"The administration of the Scheme within the World Bank Group could best be assured by the creation of a special Agency affiliated with the Bank as closely as IFC or possibly even as closely as IDA. The statutes of the new organization could be drawn up by the Executive Directors of the Bank, in consultation with the Intergovernmental Group on Supplementary Financing, and should then be open to acceptance by States members of the Bank or of UNCTAD. It would be legally possible for the Scheme to be administered directly, but on a "trust fund" basis, by either the World Bank or IDA, but preferably by the latter. However, if the voting power of the Executive Directors is to reflect the participation of States in the Scheme it will be necessary to amend the Articles of Agreement of the Association."

*to fund*

It is, of course, for governments to agree to implement a scheme of Supplementary Finance. It is for the Executive Board of the Bank Group to decide whether we should undertake it, if called upon. We have always made this clear at previous discussions of S.F. in IGG and UNCTAD Committees.



### Cost Estimates

A main question in S.F. discussions relates to estimated cost of the Scheme. In our earlier study, and during discussions, we have presented certain estimates placing financial requirements at \$300-400 million a year, on an average. The IGG has asked us to look at the cost aspect again, taking into account available data for recent years also, and we have agreed to do so.

We have done this, and a (draft) paper is available with us on the question. It is not necessary to circulate the paper as such but give a brief note to the Group as follows, and be prepared to explain further orally, as may be needed during the course of discussions.

We have considered different country samples available for different periods over 1957-67. Taking into account these available data for the entire period, i.e. including data for more recent years up to 1967, <sup>and</sup> ~~we derive an average estimate of \$1.4 billion a year for~~ gross shortfalls. <sup>has done</sup> Adjusting for various factors as we ~~did~~ before, ~~and~~ subject to the limitations we have always indicated, the revised estimate of financial requirements may be placed at about \$300 million a year.



Cost Estimates for Supplementary Finance Scheme

The following alternative ways of presentation of figures may be considered:

		<u>\$ Million</u>
I. Gross Overall Shortfall based on historical experience		1,400
<u>Adjustments and other Sources of Financing</u>		
Internal measures of adjustment	75	
Greater reliability of projections (including effects of better policy adherence)	200	
Use of reserves	75	
Fund Facility and Overages	500	
Other Sources of Finance	50	900
Total remaining Shortfalls for S.F.S. (i.e. total cost assuming all countries can use Scheme)		500
Adjustment for Countries which do not use the Scheme, as they do not meet initial requirements or do not implement performance understandings		200
Financial Requirements for Scheme		300
-----		
II. Gross Shortfalls		1,400
Use of Countries' own Resources (export overages, use of reserves; internal adjustment measures)	450	1,400
Better projections	200	
Other Sources of Finance to be used	250	900
Remaining Shortfalls		500
Countries not using Scheme		200
Financial Requirements for Scheme		300
-----		

*preferred*



## Relation between Supplementary Finance and Fund's Compensatory Finance Facility

This is a question that has come up during earlier discussions, and we have tried to clarify the position. We have stated that the administering agency for Supplementary Finance would need to be guided by Fund advice on matters that belong in its area of operations - monetary and exchange policies in the context of a country's development program. In view of the close relationship of Fund Facilities and Supplementary Finance, continuing consultation and cooperation between the Bank staff and Fund staff, with respect to policy measures and other matters, are requisite to the effective implementation of Supplementary Finance, if this were entrusted to Bank/IDA. If Supplementary Finance should come to be entrusted to IDA, then the question of relationship between CFF and SF would become part of the whole framework of continuing consultations and cooperation between the Fund and Bank Group.

In a more limited and technical sense, the question arises: When a country faces an export shortfall, to which facility does the country look for assistance - Fund's C.F.F. or Supplementary Finance? While use of C.F.F. is not prerequisite, it has been clearly understood that use of C.F.F. is a means of meeting a shortfall. Also, the country cannot obtain finance from both sources for the same shortfall. However, when C.F.F. finance is not available or is not adequate to meet the shortfall, recourse to S.F. would be available, subject to various conditions being satisfied. Also, if refinancing of C.F.F. in appropriate cases is included as a purpose of S.F. Scheme, such refinancing would extend the time period over which finance is available to the country. <sup>Also</sup> Even in these matters, Fund-Bank Group consultation and coordination would be called for and prove useful.

An agreed brief statement on the above lines by Fund and Bank Staff representatives could be made at the IGG meeting.



## IDA Replenishment and Supplementary Finance

There are several possibilities that could emerge from the forthcoming IGG and Trade and Development Board discussions of S.F.

(i) There may be widely divergent views among governments with respect to the need for and feasibility of S.F., resulting in a decision not to implement it;

(ii) Governments may generally agree to the purpose of S.F. in the course of discussions this year; also indicate the limited fund they would be prepared to subscribe to it, and ask the Bank/IDA to undertake it, on the basis of such additional contributions;

(iii) Governments may only agree on the purpose of S.F. and in principle that it should be implemented, but, without mentioning amounts or their being additional,<sup>and</sup>/remit the whole thing to Bank Group to be worked out as appropriate and feasible.

Especially when aid flows are stagnating, a scheme intended to meet a felt need of several LDC's could be a means of maintaining and increasing total aid flows, especially through multilateral channels. Any scheme of S.F. that only diverted existing development funds to this end would be of little interest to developing countries. We ourselves have said the resources for S.F. should be additional. This concept of additionality of funds assumes particular importance for us when the idea is put forward that S.F. be turned over to IDA as an added function and that the question of financial contributions for it be taken up together with third IDA replenishment.

As there is general consensus that Bank/IDA should be the administering agency for S.F., it may get combined with third IDA replenishment.



For us, then, it becomes all the more important to underline that resources for S.F. should be additional to a larger level of IDA replenishment. However, while being additional to IDA funds, S.F. may still involve some diversion of other aid funds from existing purposes. The advantage still would be in increased multilateral channeling of aid funds; more aid becomes untied.

From our viewpoint, i.e. in the interests of enlarging development finance flows to LDC's, <sup>we should first</sup> attempt ~~would be~~ to obtain a view of the scale of <sup>possibly likely</sup> the third replenishment for IDA. After that, <sup>would</sup> Supplementary Finance ~~could~~ well become an added function of IDA, if governments so agree and our own Board concurs, <sup>would be likely</sup> provided additional resources for this purpose are contributed by governments. This is the essence of additionality for us.

Increasing para-  
development  
might might  
develop.

at could become readily judged  
whether funds provided for  
this

May 20, 1969

MAY 20 1969

Dear Dr. Perez-Guerrero:

On behalf of Mr. McNamara, I acknowledge receipt of your letter TDO 280/1 Fifth Session of May 12, 1969, and thank you for having invited the Bank to be represented at the fifth session of the Inter-Governmental Group on Supplementary Financing to be held in New York from June 23 to July 3, 1969.

I am pleased to inform you that the Bank will be represented by Mr. Irving S. Friedman, The Economic Adviser to the President, accompanied by Mr. N.A. Sarma. I would appreciate your sending Messrs. Friedman and Sarma any documentation relevant to the meeting at the Bank's address in Washington.

Sincerely yours,

Federico Consolo  
Special Representative  
for  
United Nations Organizations

Dr. Mamuel Perez-Guerrero  
Secretary-General  
United Nations Conference on  
Trade and Development  
Palais des Nations  
1211 Geneva 10  
(Switzerland)

cc: Mr. Friedman (with cc incoming letter)  
Mr. Sarma ( " " " " )

Central Files with incoming letter

FC:mmcd





*cc. to Mr. Friedman  
"Sam"*

Télégrammes : UNATIONS, GENÈVE

Télex : 22.212 ou 22.314

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

Palais des Nations

CH - 1211 GENÈVE 10

REF. No.: TDO 280/1 Fifth session

12 May 1969

*for*

Dear Mr. McNamara,

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

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

You will recall that the Committee on Invisibles and Financing related to Trade, in establishing the Intergovernmental Group, decided to invite "representatives of the staff of IBRD and the International Monetary Fund as well as representatives of such other bodies as the Group may consider appropriate to assist in the work of the Intergovernmental Group and in particular to prepare such factual material as may be required to enable the Group to accomplish its task"


Mr. Robert S. McNamara  
President  
International Bank for Reconstruction  
and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
USA

(TD/B/73/Rev.1-TD/B/C.3/22/Rev.1, Annex I (a)), and that the United Nations Conference on Trade and Development at its second session decided "to continue in existence the Intergovernmental Group suitably expanded" (TD/97, Vol. I, Annex I, resolution 30 (II), paragraph 6).

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

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

Yours sincerely,

  
Manuel Pérez-Guerrero  
Secretary-General of UNCTAD



Membership of the  
Intergovernmental Group on Supplementary Financing<sup>1/</sup>

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

---

<sup>1/</sup> A/7214, Part Two, paras. 96-99, and Annex I, Other Decisions (a).

Mr. J. Burke Knapp

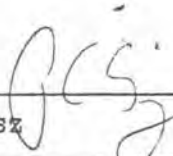
May 2, 1969

Irving S. Friedman

Supplementary Financing within the World Bank Group -  
Legal Considerations

Sorry for the delay, this is the legal memorandum to which  
I referred.



<b>ROUTING SLIP</b>		Date  February 3, 1969	
NAME		ROOM NO.	
Mr. N.A. Sarma		C 1005	
	To Handle		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
XX	Comment		Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		Send On
<b>REMARKS</b>  I would appreciate your comment on the attached draft of the legal paper on Supplementary Financing, which has now been redrafted in the form in which Mr. Broches might submit it to Mr. McNamara and the Bank then submit it to the UNCTAD Committee.			
			
From <b>P.C. Szasz</b>			

## OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: March 20, 1969

FROM: A. Broches

MAR 21 1969  
11 a.m.SUBJECT: Memorandum on Legal Considerations in relation to Supplementary Financing

1. Attached, for transmission to the Intergovernmental Group on Supplementary Financing of the Trade and Development Board of UNCTAD, is the memorandum on the legal considerations relating to the operation of the Supplementary Financing Scheme within the World Bank Group, as requested by the Intergovernmental Group through Question A(iii) attached to its Report on its fourth session, which was mentioned by you in the Senior Staff Meeting on October 29, 1968 and was circulated under cover of document SSM/A/68-9 of October 30.

2. The attached memorandum is identical to the draft of February 14, 1969 that Mr. Szasz sent you for comment on February 17. Additional copies can be obtained from Mr. Szasz (x 4201).

Attachment

cc: Mr. Steckhan



Chenon

SUPPLEMENTARY FINANCING WITHIN THE WORLD BANK GROUP

Legal Considerations

I. Introduction and Background

1. The first United Nations Conference on Trade and Development (UNCTAD) recommended that the International Bank for Reconstruction and Development (IBRD or World Bank) be invited to study the feasibility of a Scheme for dealing with "problems arising from adverse movement in export proceeds -- which cannot adequately be dealt with by short-term balance of payments support" such as can be made available by the International Monetary Fund (IMF), by providing long-term assistance to developing countries to enable them to "avoid disruption of their development programs". The principles on the basis of which the study was to be conducted foresaw that the Scheme "be provided with resources by contributions from participating countries shared between them on an equitable basis" in the form of "additional commitments, prescribed in advance" to which "all the major Part I member countries" of the International Development Association (IDA) should contribute and which "would be administered under the . . . Association", which would also perform the examinations of economic circumstances prerequisite to grants of assistance from the Scheme (UNCTAD Recommendation A-IV-18, Part A, reproduced as Annex I to the "Study" referred to in the next paragraph).

2. On December 6, 1965 the President of the World Bank transmitted to the Secretary-General of the United Nations a "Study on Supplementary Financial Measures" (circulated to UNCTAD under cover of document TD/B/L/3); this paper had been prepared by the staff of the Bank but was not considered by the Executive Directors. While the Study was "carried out in the spirit of the UNCTAD resolution" and recalled its assumption that the Scheme would be administered under IDA, it did "not, however, address itself to the question of the administering Agency". It was recognized that in any case "the closest cooperation will be required with the IBRD and the IMF regardless of the nature of the Agency carrying out the Scheme" (id, p. 5).

3. The "Final Report" of the Intergovernmental Group on Supplementary Financing, as adopted by the Group at its third session held at Geneva from 30 October to 13 November 1967 (document TD/33), recorded the:

"general agreement in the Group that the creation of a new Agency for the administration of the Scheme would be unnecessary, uneconomic and would create considerable complications, and that among the existing international agencies the Bank group would be the most appropriate. It further agreed that the Scheme should be administered in close co-operation with the IMF. The specific arrangements which would be necessary would require further consideration. It was also agreed that the largest possible number of developing countries should be eligible for participation in the Scheme, whether or not they were currently receiving assistance from the IDA. It was agreed that the question of countries not members of the IMF and the Bank required further consideration and legal advice." (id, Chapter III, paras. 100 and 101).

4. At its fourth session in October 1968, the Intergovernmental Group agreed on a program of work (TD/B/ ) including extensive



further examinations relating to the "World Bank Staff Scheme". One point on which the Bank was requested to submit written comments:

"A. (iii) to what extent could the proposed SFM Bank Staff scheme be implemented by the Bank and the IDA, within their existing articles of agreement, if the Executive Directors so agreed and the necessary funds were made available?" (Emphasis added)

5. This memorandum is designed to answer the latter question. However, as it may not be possible to give an unqualified positive answer if the terms of the query are construed narrowly, the possibility of establishing a new organization, closely affiliated with the World Bank Group, is also explored.

## II. Outline of the Bank Staff Scheme\*

6. For the Scheme to become operational, it would first of all be necessary to obtain funds or adequate pledges from capital exporting States, amounting to \$1.5 to 2 billion for an initial experimental period of five years.

7. The Agency administering the Scheme would have to agree separately with each potential beneficiary State on a "policy understanding", which would include:

- (i) A statement of the State's development program and economic policies throughout the "projection period" (tentatively set at five years);

\* As presented in the original World Bank Study and interpreted in the light of a set of "follow-up technical notes or papers" prepared by its Secretariat and circulated under cover of document TD/B . . . , and as restated in Chapter II of the Final Report (supra, para. 3) of the Intergovernmental Group.

- (ii) a forecast of export expectations - i.e., a detailed projection of net export proceeds during the agreed period;
- (iii) a specification of the economic adjustments the State should make and of the other external resources it should draw on, if unexpected shortfalls in its export earnings should develop, before it draws on the resources of the Scheme.

8. This policy package would be revised from time to time during the period to which it relates, on the basis of periodic consultations between the State and the Agency.

9. If the State concerned should claim an export shortfall during the projection period, the Agency would determine:

- (i) whether the State was complying with the agreed program and policies;
- (ii) the amount of the "shortfall", measured by comparing the actual export results as against the forecasts in the policy understanding. In doing so the Agency might have to take into account the effects of changes in the price of imports (i.e., even though the amount of export earnings are as predicted these earnings may no longer purchase the same volume of imports) as well as the possibility that export receipts had only been maintained at the predicted level by increasing the volume of exports in a falling market;



- (iii) the amount of offsets to be taken into account before the resources of the Scheme (which is to act as "residual lender") may be used. These offsets might include:
- (A) all or part of any "overages" (calculated as in (ii)) that the State had accumulated from its exports earlier in the period;
  - (B) other resources the State can draw on, such as assistance from IMF's Compensatory Financing Facility, and other lines of available credit;
  - (C) other internal economic adjustments that would not inhibit the agreed development program.
- (iv) how to ration the available resources among the potential recipients if these resources might be insufficient to meet all demands expected (either on a year-to-year basis, or for the entire projection period);
- (v) the terms of the assistance -- which would probably be long-term concessional credits determined individually and flexibly for each State, taking into account its over-all financial and economic position. These credits would, however, be subject to quick repayment if export overages should occur during the balance of the projection period (i.e., the assistance would initially be in the form of "contingent credits", to be refinanced at the end of the period), and be

subject even later to prematuring if the State's foreign exchange position should improve substantially.

III. Significant Features of the Scheme from an Organizational Point of View

(a) Decisions to be taken by the Agency

10. No matter how the Scheme is finally formulated, it will be necessary for the Agency administering it to take a number of discretionary decisions, which must, however, be subject to the "policy understanding" reached with each State. It is of course possible, and indeed desirable that as far as feasible the range of discretionary issues be reduced by resolving them, either in general or with reference to each State separately, at some stage in advance of the occurrence of a shortfall and the submission of a demand for assistance; this might be done:

- (i) In the instrument by which the Scheme itself is established;
- (ii) In general regulations concerning the formulation of "policy understandings", promulgated by the governing organ of the Agency -- such regulations will of course have to be consistent with the above-mentioned basic instrument, and within the authority granted to such organ by that instrument;
- (iii) In the policy understanding reached with each State -- which in turn must be consistent with any applicable regulations;
- (iv) In general regulations promulgated by such governing organ regarding the carrying out of the Agency's responsibilities once a shortfall has occurred -- these regulations will of



course also have to be consistent with the basic instrument and within the authority of the promulgating organ, and may in no case derogate from any obligation of the Agency under a particular "understanding" with a participating State.

11. Following is a sample of the principal potential issues that will have to be resolved at one of these appropriate stages, or at the latest in connection with the implementation of particular requests:

- (i) The admission of potential beneficiary States to the Agency (while an initial list can be established concurrently with the Scheme, later decisions about admissions and removals will be required);
- (ii) The approval, modification and termination of policy understandings;
- (iii) The approval of the export projections as part of the policy understandings;
- (iv) The determination of the factors (e.g., changes in import or export prices) to be taken into account in measuring the extent of a shortfall;
- (v) The determination of the external resources that a State is expected to tap before becoming eligible to receive residual aid from the Scheme;
- (vi) Requiring a State to make internal economic adjustments to reduce the demands on the Scheme;

- (vii) The rationing of restricted resources;
- (viii) Setting the terms of the assistance granted;
- (ix) Demanding that a State repay prematurely the credit granted, if its economic position should unexpectedly improve.

(b) Political questions

12. One of the crucial elements in establishing the Scheme will undoubtedly be the formula regulating voting powers in the governing organ of the Agency. It appears likely that some type of weighted voting will be necessary, presumably related largely to the size of the contribution of States to the Scheme but in any case guaranteeing a minimum vote to all participants. While such devices are used by the World Bank and by IDA, it is unlikely that the distribution of the franchise in relation to the Scheme would automatically be the same as in either of these organizations. Since the Articles of Agreement of neither organization provide for their Executive Directors to have their votes weighed differently on different issues, this could only be accomplished by amending the Articles, or by establishing a separate organization with a governing organ consisting of



the Executive Directors of the three existing institutions of the World Bank Group, but whose voting rights would be governed by a special formula. The latter is the solution adopted when first the International Finance Corporation (IFC) and later IDA were established by the World Bank.

13. The membership of the Agency will presumably have to be open not only to the members of the World Bank, but to all members of UNCTAD. While the accommodation of non-members of the World Bank among the contributors to or the beneficiaries of the Scheme should not in itself cause any legal difficulties (particularly if the Scheme is administered on a "trust fund" basis, as discussed in paragraph 22), the inclusion of representatives of such States on the governing organ of the Scheme would be impossible under the current Articles of Agreement of the Bank or IDA.

(c) Staff

14. The Agency would have to command a staff (either its own or that of any organization(s) with which it is affiliated) with the requisite expertise to make the various types of decisions required to operate the Scheme. In particular, it must be able to develop reasonable export projections, evaluate the merits and prospects of development plans, be able to take account of various economic factors such as the impact of changes in export/import price indices on a country's export results, and be knowledgeable about the reasonable adjusting measures a State might be expected to take and the alternative sources of credit it might rely on when faced with an export shortfall.

15. The expertise described above is available within the Bretton Woods organizations. Whether it lies closer to that of IMF or of the World Bank Group will depend largely on the terms under which the Scheme is ultimately established, and in particular ~~on~~ the extent to which the evaluation of development plans, both at the stage of formulating policy understandings and of considering the adjustments necessary in the face of a shortfall, will form an important task of the Agency; to the extent that such evaluations are emphasized will the required expertise be that of the staffs of the World Bank and IDA. However, in any case arrangement should be made under which the Agency could also draw on the personnel of IMF.

16. No matter what the legal form of the Agency is, if arrangements can be made for it to draw freely on the staffs of the World Bank Group, and as far as necessary on that of IMF, then the true cost of administering the Scheme can probably be kept very low.

IV. Alternative Means of Implementing the Scheme within the World Bank Group

(a) New or existing organizations

17. The question addressed to the Bank by the Intergovernmental Group relates to the implementation of the Scheme by the Bank or IDA (paragraph 4 above). The Group's earlier report to UNCTAD recorded the conclusion that "the creation of a new Agency for the administration of the Scheme would be unnecessary, uneconomic and would create considerable complications"; however, it was recognized "that the question of countries not members of



the IMF and the Bank required further consideration and legal advice" (paragraph 3 above).

18. This conclusion reflects the current general resistance to the establishment of new organizations, as apparent from the recent decision to incorporate the Special Drawing Rights Facility within IMF, from the proposal that the International Investment Insurance Scheme be accommodated within IFC, and from the decisions of the United Nations General Assembly to establish UNCTAD, UNIDO and the Capital Development Fund as organs of the United Nations rather than as separate specialized agencies. The specific arguments against the creation of a new organization to administer the Scheme can be summarized as follows:

- (i) The statutes of any new organization would normally take the form of an international treaty, whose negotiation may be considerably more complicated than the adoption of the Scheme by the competent organ of an existing organization -- even though in the latter case too extended negotiations, particularly among the potential contributors, may be necessary.
- (ii) A new organization usually requires an independent staff, which is wasteful both because of the necessity of creating a number of purely administrative services, and in respect of the Scheme in particular since much of the substantive work might be performed by the operating staffs of existing

organizations, almost as part of their routine work.

- (iii) If the Scheme is to be administered by a governing organ independent of that of existing institutions, it may be necessary to establish appropriate coordinating machinery to avoid policy conflicts with the organizations performing related tasks.

19. These arguments are, however, addressed primarily to the issue of the creation of an organization completely independent of any existing one. But they are not necessarily relevant to the creation of yet another organization within the World Bank Group, to be at least as closely affiliated with the Bank as IFC and probably as intimately as IDA:

- (i) The formulation of the statutes of the Agency need not involve a more elaborate procedure than would be required for a decision of the Executive Directors of the World Bank or of IDA to assume administration of the Scheme, for in either case the necessary instrument could be formulated (as were the Articles of Agreement of IFC and IDA) by the Executive Directors of the Bank; even the informal collaboration in this process of representatives of non-members of the Bank should not prove to be too difficult. Furthermore, embodiment of the statutes of the Agency in a new treaty instrument would have at least one distinct advantage: since it appears clear, from the considerations discussed in paragraphs 12 and 13, that if the Scheme is to



be administered by the Bank or by IDA it would be necessary to amend the Articles of Agreement of the organization concerned, that process of amendment would require the consent of even some of those members of the organization as are not interested in participating in the Scheme; on the other hand, the bringing into force of a new treaty would primarily require the concurrence of only the interested States -- though naturally at least the tacit consent of a majority of the members of the Bank is necessary for the establishment of a closely affiliated institution.

- (ii) The creation of a new organization does not necessarily imply the establishment of a separate staff: for example, the World Bank and IDA have identically the same staff, and the World Bank and IFC have common administrative but separate operational staffs. Contrarywise, the administration of the Scheme within an existing organization does not guarantee that no new staff will be created, for international organizations have frequently found it necessary to implement certain operations through practically independent (and often geographically separated) units with their own administrative structures.

(iii) If the Agency were established with statutes similar to the Articles of Agreement of IFC or IDA, then its political governing organs (Board of Governors, Executive Directors, President) would be identical to those of the Bank -- except for any minor adjustments necessary to allow non-members of the Bank to be represented. The possibility of conflict and the need for coordinating machinery would thus automatically fall away.

(b) Integral operation or trust arrangement

20. If the Scheme is to be operated directly by IDA (see paragraphs 24 and 25 below), this could be done in two alternative ways:

(i) As an integral operation, subject to IDA's normal rules regarding the raising and disbursing of funds.

(ii) As a "trust" arrangement, subject to special rules.

21. The first of the above alternatives does not appear to be a convenient or even a feasible method for administering the Scheme. Though Article III of the Articles of Agreement of IDA allows considerable flexibility as to the terms and conditions of additional subscriptions to the Association, certain restrictions in that Article (in particular, Section 1(c)) and in Article IV (in particular Section 2) might not be compatible with the establishment and effective operation of the Scheme; even aside from these statutory difficulties, the current procedure for raising additional funds for IDA under Section 1 of Article III (for example IDA Board Resolution



No. 48) is quite different from that which would have to be envisaged for the Scheme. Also, in view of the concessional terms on which credits under the Scheme are to be granted, borrowing of capital funds under Section 5(i) of Article V is probably not feasible. More seriously, the disbursement rules of Section 1 of Article V are not fully compatible with the administration of the Scheme: paragraph (b) requires that the financing provided by the Association should, "except in special circumstances . . . be for specific projects", and the same is implied by paragraph (h); paragraph (d) requires that the merits of each proposal be carefully studied -- which might be incompatible with the semi-automatic, rapid procedure foreseen for disbursements under the Scheme.

22. None of the above difficulties would arise if the Scheme were to be administered as a "trust", whose terms could not of course be radically incompatible with those of the Articles of Agreement of the administering organization, but need not conform to its modus operandi in detail. Though the Articles of Agreement of IDA do not explicitly provide for the assumption by it of responsibilities for trust funds and indeed it has never yet done so, the similar silence of the Articles of Agreement of the World Bank has not prevented that organization from assuming responsibility for several major and minor trusts, such as the Indus, Tarbela and Nam Ngum Development Funds and possibly the Coffee Diversification Fund.

(c) World Bank or IDA

23. Under any of the arrangements discussed above, the question arises whether the Agency should be, or be closely associated with, the World Bank or IDA. This question too should be examined in the light of the respective Articles of Agreement of the two organizations, as well as of relevant policy consideration.

24. From the point of view of the Articles of Agreement, there are few relevant differences. In particular, with regard to the administration of a trust fund, neither charter contains any relevant guide-lines or obstacles.

25. General policy considerations suggest that if the Scheme is to be operated by one of the organizations, that this be done by IDA. The credits to be granted under the Scheme are to be generally or at least frequently on concessional terms -- which is the method of lending for which the Association was created and which distinguishes it from the World Bank. Somewhat similar reasons as led to the creation of IDA, the "soft-loan window of the Bank", as an independent organization, in order to underline the differences between its operations and those for which the Bank must raise funds on the international money market, suggest that this distinction be preserved by having the Scheme operated by IDA rather than by the Bank.

26. Since the Bank and IDA have identically the same Governors, Executive Directors, President, officers and staff, this consideration offers no basis for distinguishing between the organizations.

27. However, should it be decided to establish a separate organization closely affiliated with the World Bank Group (paragraph 19), then it would



seem advantageous to associate the new institution with the Bank rather than with IDA. One reason is that the Bank's membership is actually larger than that of IDA (and under the Articles of Agreement of the latter can in no case become smaller) -- so that the adjustments that will be necessary if there should be members of the Agency that are not also members of the organization with which it is to be affiliated (and whose Executive Directors would constitute the membership of its own governing board) will be fewer and less drastic in respect of the Bank than of IDA. Furthermore, conceptually, it is simpler and thus preferable for the World Bank to act as the senior and central organization of a cluster of other institutions affiliated with it, than to build up a more elaborate configuration in which some new affiliates are dependent from organizations themselves junior to the Bank.

V. Conclusions

28. The administration of the Scheme within the World Bank Group could best be assured by the creation of a special Agency affiliated with the Bank as closely as IFC or possibly even as closely as IDA. The statutes of the new organization could be drawn up by the Executive Directors of the Bank, in consultation with the Intergovernmental Group on Supplementary Financing, and should then be open to acceptance by States members of the Bank or of UNCTAD.

29. It would be legally possible for the Scheme to be administered directly, but on a "trust fund" basis, by either the World Bank or IDA, but preferably by the latter. However, if the power of the Executive Directors is to reflect the participation of States in the Scheme it will be necessary to amend the Articles of Agreement of the Association.

## OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: March 20, 1969

FROM: N. A. Sarma

*N. A. Sarma*

MAR 20 1969

*H. H. J.*SUBJECT: Supplementary Financing within the World Bank Group

Please see copy of the above note with you from Mr. Szasz, of February 17. Mr. Szasz has reminded me about it, and says that the Legal Department would like to have your view on the paper.

The paper deals with the question posed to us by the I.G.G. on S.F.: Whether the Bank Staff Scheme could be implemented by the Bank and IDA, within their existing Articles of Agreement, if the E.D.'s so agreed and if finance were available.

As I mentioned to you, I had seen an earlier draft of the note, and the present draft takes account of the main suggestions I made. I have no difficulty with the present draft. Purely from a drafting and presentation viewpoint, Section II could be omitted (Sections II and III are largely repetitive).

Perhaps, you may like to have a word with Mr. Broches about this paper.



## OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: March 3, 1969

FROM: N. A. Sarma

*N. A. Sarma*

MAR 3 1969

4:30pm

SUBJECT: Material for next session of I.G.G. on Supplementary Finance

The next session of the Group on S.F. is to be held in New York during June 23 - July 4, 1969. At its last session, the Group asked the UNCTAD Secretariat, Bank Staff, and Fund Staff to provide additional material and advice. Any written material is to be furnished by the end of March '69.

There are two main questions on which we are expected to send written material:

- (1) Revised cost estimates, taking into account available data for recent years. I have reminded Mr. Macone about this, and we should be able to send you a brief paper by March 20.
- (2) Can the Bank Staff Scheme be implemented by Bank and IDA, within their Articles of Agreement, if E.D.'s so agreed and necessary finances were made available. A note by Mr. Szasz of the Legal Department is with you. (I have a copy which I would have read by tomorrow.)

There are also certain other questions, especially about policy understandings and consultations, the relationship with C.F.F. and re-financing of C.F.F. - we need not send written material on these. If we want to do so, we could use the relevant sections in my paper of January 15 which I prepared for a possible Board Seminar (pp. 9-11, and 19-21). Otherwise, we could deal with these and other points orally at the next session.

I understand the Fund Staff have informed the UNCTAD Secretariat that they cannot furnish any material in writing.

We ourselves have to take a view, and inform the UNCTAD Secretariat before the end of this month.

ROUTING SLIP		Date	
		February 17, 1969	
NAME		ROOM NO.	
Mr. I.S. Friedman		A 1221	
cc: Mr. E.E. Clark		A 809	
Mr. N.A. Sarma		C 1005	
	To Handle		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
XX	Comment		Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		Send On
<p>REMARKS</p> <p>Mr. Broches would appreciate your comments on the attached draft of a document to be submitted to UNCTAD's Intergovernmental Group on Supplementary Financing in response to a request addressed to the Bank last October.</p>			
<p>From P.C. Szasz <i>(Signature)</i> FEB 19 1969 12 noon</p>			



DRAFT  
PCSzasz/eb  
February 14, 1969

SUPPLEMENTARY FINANCING WITHIN THE WORLD BANK GROUP

Legal Considerations

I. Introduction and Background

1. The first United Nations Conference on Trade and Development (UNCTAD) recommended that the International Bank for Reconstruction and Development (IBRD or World Bank) be invited to study the feasibility of a Scheme for dealing with "problems arising from adverse movement in export proceeds -- which cannot adequately be dealt with by short-term balance of payments support" such as can be made available by the International Monetary Fund (IMF), by providing long-term assistance to developing countries to enable them to "avoid disruption of their development programs". The principles on the basis of which the study was to be conducted foresaw that the Scheme "be provided with resources by contributions from participating countries shared between them on an equitable basis" in the form of "additional commitments, prescribed in advance" to which "all the major Part I member countries" of the International Development Association (IDA) should contribute and which "would be administered under the . . . Association", which would also perform the examinations of economic circumstances prerequisite to grants of assistance from the Scheme (UNCTAD Recommendation A-IV-18, Part A, reproduced as Annex I to the "Study" referred to in the next paragraph).

2. On December 6, 1965 the President of the World Bank transmitted to the Secretary-General of the United Nations a "Study on Supplementary Financial Measures" (circulated to UNCTAD under cover of document TD/B/43); this paper had been prepared by the staff of the Bank but was not considered by the Executive Directors. While the Study was "carried out in the spirit of the UNCTAD resolution" and recalled its assumption that the Scheme would be administered under IDA, it did "not, however, address itself to the question of the administering Agency". It was recognized that in any case "the closest cooperation will be required with the IBRD and the IMF regardless of the nature of the Agency carrying out the Scheme" (id, p. 5).

3. The "Final Report" of the Intergovernmental Group on Supplementary Financing, as adopted by the Group at its third session held at Geneva from 30 October to 13 November 1967 (document TD/33), recorded the:

"general agreement in the Group that the creation of a new Agency for the administration of the Scheme would be unnecessary, uneconomic and would create considerable complications, and that among the existing international agencies the Bank group would be the most appropriate. It further agreed that the Scheme should be administered in close co-operation with the IMF. The specific arrangements which would be necessary would require further consideration. It was also agreed that the largest possible number of developing countries should be eligible for participation in the Scheme, whether or not they were currently receiving assistance from the IDA. It was agreed that the question of countries not members of the IMF and the Bank required further consideration and legal advice." (id, Chapter III, paras. 100 and 101).

4. At its fourth session in October 1968, the Intergovernmental Group agreed on a program of work (TD/B/ ) including extensive



further examinations relating to the "World Bank Staff Scheme". One point on which the Bank was requested to submit written comments:

"A. (iii) to what extent could the proposed SFM Bank Staff scheme be implemented by the Bank and the IDA, within their existing articles of agreement, if the Executive Directors so agreed and the necessary funds were made available?" (Emphasis added)

5. This memorandum is designed to answer the latter question. However, as it may not be possible to give an unqualified positive answer if the terms of the query are construed narrowly, the possibility of establishing a new organization, closely affiliated with the World Bank Group, is also explored.

## II. Outline of the Bank Staff Scheme\*

6. For the Scheme to become operational, it would first of all be necessary to obtain funds or adequate pledges from capital exporting States, amounting to \$1.5 to 2 billion for an initial experimental period of five years.

7. The Agency administering the Scheme would have to agree separately with each potential beneficiary State on a "policy understanding", which would include:

- (i) A statement of the State's development program and economic policies throughout the "projection period" (tentatively set at five years);

---

\* As presented in the original World Bank Study and interpreted in the light of a set of "follow-up technical notes or papers" prepared by its Secretariat and circulated under cover of document TD/B . . . , and as restated in Chapter II of the Final Report (supra, para. 3) of the Intergovernmental Group.

- (ii) a forecast of export expectations - i.e., a detailed projection of net export proceeds during the agreed period;
- (iii) a specification of the economic adjustments the State should make and of the other external resources it should draw on, if unexpected shortfalls in its export earnings should develop, before it draws on the resources of the Scheme.

8. This policy package would be revised from time to time during the period to which it relates, on the basis of periodic consultations between the State and the Agency.

9. If the State concerned should claim an export shortfall during the projection period, the Agency would determine:

- (i) whether the State was complying with the agreed program and policies;
- (ii) the amount of the "shortfall", measured by comparing the actual export results as against the forecasts in the policy understanding. In doing so the Agency might have to take into account the effects of changes in the price of imports (i.e., even though the amount of export earnings are as predicted these earnings may no longer purchase the same volume of imports) as well as the possibility that export receipts had only been maintained at the predicted level by increasing the volume of exports in a falling market;



- (iii) the amount of offsets to be taken into account before the resources of the Scheme (which is to act as "residual lender") may be used. These offsets might include:
  - (A) all or part of any "overages" (calculated as in (ii)) that the State had accumulated from its exports earlier in the period;
  - (B) other resources the State can draw on, such as assistance from IMF's Compensatory Financing Facility, and other lines of available credit;
  - (C) other internal economic adjustments that would not inhibit the agreed development program.
- (iv) how to ration the available resources among the potential recipients if these resources might be insufficient to meet all demands expected (either on a year-to-year basis, or for the entire projection period);
- (v) the terms of the assistance -- which would probably be long-term concessional credits determined individually and flexibly for each State, taking into account its over-all financial and economic position. These credits would, however, be subject to quick repayment if export overages should occur during the balance of the projection period (i.e., the assistance would initially be in the form of "contingent credits", to be refinanced at the end of the period), and be

subject even later to prematuring if the State's foreign exchange position should improve substantially.

III. Significant Features of the Scheme from an Organizational Point of View

(a) Decisions to be taken by the Agency

10. No matter how the Scheme is finally formulated, it will be necessary for the Agency administering it to take a number of discretionary decisions, which must, however, be subject to the "policy understanding" reached with each State. It is of course possible, and indeed desirable that as far as feasible the range of discretionary issues be reduced by resolving them, either in general or with reference to each State separately, at some stage in advance of the occurrence of a shortfall and the submission of a demand for assistance; this might be done:

- (i) In the instrument by which the Scheme itself is established;
- (ii) In general regulations concerning the formulation of "policy understandings", promulgated by the governing organ of the Agency -- such regulations will of course have to be consistent with the above-mentioned basic instrument, and within the authority granted to such organ by that instrument;
- (iii) In the policy understanding reached with each State -- which in turn must be consistent with any applicable regulations;
- (iv) In general regulations promulgated by such governing organ regarding the carrying out of the Agency's responsibilities once a shortfall has occurred -- these regulations will of



course also have to be consistent with the basic instrument and within the authority of the promulgating organ, and may in no case derogate from any obligation of the Agency under a particular "understanding" with a participating State.

11. Following is a sample of the principal potential issues that will have to be resolved at one of these appropriate stages, or at the latest in connection with the implementation of particular requests:

- (i) The admission of potential beneficiary States to the Agency (while an initial list can be established concurrently with the Scheme, later decisions about admissions and removals will be required);
- (ii) The approval, modification and termination of policy understandings;
- (iii) The approval of the export projections as part of the policy understandings;
- (iv) The determination of the factors (e.g., changes in import or export prices) to be taken into account in measuring the extent of a shortfall;
- (v) The determination of the external resources that a State is expected to tap before becoming eligible to receive residual aid from the Scheme;
- (vi) Requiring a State to make internal economic adjustments to reduce the demands on the Scheme;

- (vii) The rationing of restricted resources;
- (viii) Setting the terms of the assistance granted;
- (ix) Demanding that a State repay prematurely the credit granted, if its economic position should unexpectedly improve.

(b) Political questions

12. One of the crucial elements in establishing the Scheme will undoubtedly be the formula regulating voting powers in the governing organ of the Agency. It appears likely that some type of weighted voting will be necessary, presumably related largely to the size of the contribution of States to the Scheme but in any case guaranteeing a minimum vote to all participants. While such devices are used by the World Bank and by IDA, it is unlikely that the distribution of the franchise in relation to the Scheme would automatically be the same as in either of these organizations. Since the Articles of Agreement of neither organization provide for their Executive Directors to have their votes weighed differently on different issues, this could only be accomplished by amending the Articles, or by establishing a separate organization with a governing organ consisting of



the Executive Directors of the three existing institutions of the World Bank Group, but whose voting rights would be governed by a special formula. The latter is the solution adopted when first the International Finance Corporation (IFC) and later IDA were established by the World Bank.

13. The membership of the Agency will presumably have to be open not only to the members of the World Bank, but to all members of UNCTAD. While the accommodation of non-members of the World Bank among the contributors to or the beneficiaries of the Scheme should not in itself cause any legal difficulties (particularly if the Scheme is administered on a "trust fund" basis, as discussed in paragraph 22), the inclusion of representatives of such States on the governing organ of the Scheme would be impossible under the current Articles of Agreement of the Bank or IDA.

(c) Staff

14. The Agency would have to command a staff (either its own or that of any organization(s) with which it is affiliated) with the requisite expertise to make the various types of decisions required to operate the Scheme. In particular, it must be able to develop reasonable export projections, evaluate the merits and prospects of development plans, be able to take account of various economic factors such as the impact of changes in export/import price indices on a country's export results, and be knowledgeable about the reasonable adjusting measures a State might be expected to take and the alternative sources of credit it might rely on when faced with an export shortfall.

15. The expertise described above is available within the Bretton Woods organizations. Whether it lies closer to that of IMF or of the World Bank Group will depend largely on the terms under which the Scheme is ultimately established, and in particular on the extent to which the evaluation of development plans, both at the stage of formulating policy understandings and of considering the adjustments necessary in the face of a shortfall, will form an important task of the Agency; to the extent that such evaluations are emphasized will the required expertise be that of the staffs of the World Bank and IDA. However, in any case arrangement should be made under which the Agency could also draw on the personnel of IMF.

16. No matter what the legal form of the Agency is, if arrangements can be made for it to draw freely on the staffs of the World Bank Group, and as far as necessary on that of IMF, then the true cost of administering the Scheme can probably be kept very low.

#### IV. Alternative Means of Implementing the Scheme within the World Bank Group

##### (a) New or existing organizations

17. The question addressed to the Bank by the Intergovernmental Group relates to the implementation of the Scheme by the Bank or IDA (paragraph 4 above). The Group's earlier report to UNCTAD recorded the conclusion that "the creation of a new Agency for the administration of the Scheme would be unnecessary, uneconomic and would create considerable complications"; however, it was recognized "that the question of countries not members of



the IMF and the Bank required further consideration and legal advice" (paragraph 3 above).

18. This conclusion reflects the current general resistance to the establishment of new organizations, as apparent from the recent decision to incorporate the Special Drawing Rights Facility within IMF, from the proposal that the International Investment Insurance Scheme be accommodated within IFC, and from the decisions of the United Nations General Assembly to establish UNCTAD, UNIDO and the Capital Development Fund as organs of the United Nations rather than as separate specialized agencies. The specific arguments against the creation of a new organization to administer the Scheme can be summarized as follows:

- (i) The statutes of any new organization would normally take the form of an international treaty, whose negotiation may be considerably more complicated than the adoption of the Scheme by the competent organ of an existing organization -- even though in the latter case too extended negotiations, particularly among the potential contributors, may be necessary.
- (ii) A new organization usually requires an independent staff, which is wasteful both because of the necessity of creating a number of purely administrative services, and in respect of the Scheme in particular since much of the substantive work might be performed by the operating staffs of existing

organizations, almost as part of their routine work.

- (iii) If the Scheme is to be administered by a governing organ independent of that of existing institutions, it may be necessary to establish appropriate coordinating machinery to avoid policy conflicts with the organizations performing related tasks.

19. These arguments are, however, addressed primarily to the issue of the creation of an organization completely independent of any existing one. But they are not necessarily relevant to the creation of yet another organization within the World Bank Group, to be at least as closely affiliated with the Bank as IFC and probably as intimately as IDA:

- (i) The formulation of the statutes of the Agency need not involve a more elaborate procedure than would be required for a decision of the Executive Directors of the World Bank or of IDA to assume administration of the Scheme, for in either case the necessary instrument could be formulated (as were the Articles of Agreement of IFC and IDA) by the Executive Directors of the Bank; even the informal collaboration in this process of representatives of non-members of the Bank should not prove to be too difficult. Furthermore, embodiment of the statutes of the Agency in a new treaty instrument would have at least one distinct advantage: since it appears clear, from the considerations discussed in paragraphs 12 and 13, that if the Scheme is to



be administered by the Bank or by IDA it would be necessary to amend the Articles of Agreement of the organization concerned, that process of amendment would require the consent of even some of those members of the organization as are not interested in participating in the Scheme; on the other hand, the bringing into force of a new treaty would primarily require the concurrence of only the interested States -- though naturally at least the tacit consent of a majority of the members of the Bank is necessary for the establishment of a closely affiliated institution.

- (ii) The creation of a new organization does not necessarily imply the establishment of a separate staff: for example, the World Bank and IDA have identically the same staff, and the World Bank and IFC have common administrative but separate operational staffs. Contrarywise, the administration of the Scheme within an existing organization does not guarantee that no new staff will be created, for international organizations have frequently found it necessary to implement certain operations through practically independent (and often geographically separated) units with their own administrative structures.

(iii) If the Agency were established with statutes similar to the Articles of Agreement of IFC or IDA, then its political governing organs (Board of Governors, Executive Directors, President) would be identical to those of the Bank -- except for any minor adjustments necessary to allow non-members of the Bank to be represented. The possibility of conflict and the need for coordinating machinery would thus automatically fall away.

(b) Integral operation or trust arrangement

20. If the Scheme is to be operated directly by IDA (see paragraphs 24 and 25 below), this could be done in two alternative ways:

(i) As an integral operation, subject to IDA's normal rules regarding the raising and disbursing of funds.

(ii) As a "trust" arrangement, subject to special rules.

21. The first of the above alternatives does not appear to be a convenient or even a feasible method for administering the Scheme. Though Article III of the Articles of Agreement of IDA allows considerable flexibility as to the terms and conditions of additional subscriptions to the Association, certain restrictions in that Article (in particular, Section 1(c)) and in Article IV (in particular Section 2) might not be compatible with the establishment and effective operation of the Scheme; even aside from these statutory difficulties, the current procedure for raising additional funds for IDA under Section 1 of Article III (for example IDA Board Resolution



No. 48) is quite different from that which would have to be envisaged for the Scheme. Also, in view of the concessional terms on which credits under the Scheme are to be granted, borrowing of capital funds under Section 5(i) of Article V is probably not feasible. More seriously, the disbursement rules of Section 1 of Article V are not fully compatible with the administration of the Scheme: paragraph (b) requires that the financing provided by the Association should, "except in special circumstances . . . be for specific projects", and the same is implied by paragraph (h); paragraph (d) requires that the merits of each proposal be carefully studied -- which might be incompatible with the semi-automatic, rapid procedure foreseen for disbursements under the Scheme.

22. None of the above difficulties would arise if the Scheme were to be administered as a "trust", whose terms could not of course be radically incompatible with those of the Articles of Agreement of the administering organization, but need not conform to its modus operandi in detail. Though the Articles of Agreement of IDA do not explicitly provide for the assumption by it of responsibilities for trust funds and indeed it has never yet done so, the similar silence of the Articles of Agreement of the World Bank has not prevented that organization from assuming responsibility for several major and minor trusts, such as the Indus, Tarbela and Nam Ngum Development Funds and possibly the Coffee Diversification Fund.

(c) World Bank or IDA

23. Under any of the arrangements discussed above, the question arises whether the Agency should be, or be closely associated with, the World Bank or IDA. This question too should be examined in the light of the respective Articles of Agreement of the two organizations, as well as of relevant policy consideration.

24. From the point of view of the Articles of Agreement, there are few relevant differences. In particular, with regard to the administration of a trust fund, neither charter contains any relevant guide-lines or obstacles.

25. General policy considerations suggest that if the Scheme is to be operated by one of the organizations, that this be done by IDA. The credits to be granted under the Scheme are to be generally or at least frequently on concessional terms -- which is the method of lending for which the Association was created and which distinguishes it from the World Bank. Somewhat similar reasons as led to the creation of IDA, the "soft-loan window of the Bank", as an independent organization, in order to underline the differences between its operations and those for which the Bank must raise funds on the international money market, suggest that this distinction be preserved by having the Scheme operated by IDA rather than by the Bank.

26. Since the Bank and IDA have identically the same Governors, Executive Directors, President, officers and staff, this consideration offers no basis for distinguishing between the organizations.

27. However, should it be decided to establish a separate organization closely affiliated with the World Bank Group (paragraph 19), then it would



seem advantageous to associate the new institution with the Bank rather than with IDA. One reason is that the Bank's membership is actually larger than that of IDA (and under the Articles of Agreement of the latter can in no case become smaller) -- so that the adjustments that will be necessary if there should be members of the Agency that are not also members of the organization with which it is to be affiliated (and whose Executive Directors would constitute the membership of its own governing board) will be fewer and less drastic in respect of the Bank than of IDA. Furthermore, conceptually, it is simpler and thus preferable for the World Bank to act as the senior and central organization of a cluster of other institutions affiliated with it, than to build up a more elaborate configuration in which some new affiliates are dependent from organizations themselves junior to the Bank.

#### V. Conclusions

28. The administration of the Scheme within the World Bank Group could best be assured by the creation of a special Agency affiliated with the Bank as closely as IFC or possibly even as closely as IDA. The statutes of the new organization could be drawn up by the Executive Directors of the Bank, in consultation with the Intergovernmental Group on Supplementary Financing, and should then be open to acceptance by States members of the Bank or of UNCTAD.

29. It would be legally possible for the Scheme to be administered directly, but on a "trust fund" basis, by either the World Bank or IDA, but preferably by the latter. However, if the <sup>voting</sup> power of the Executive Directors is to reflect the participation of States in the Scheme it will be necessary to amend the Articles of Agreement of the Association.