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Friedman UNCTAD Files - Meeting on
Suppl. Finance

Dec. 11, 1969

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Irving Friedman UNCTAD Files: Supplementary Finance - Correspondence

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: June 8 1970

FROM: Irving S. Friedman

SUBJECT: Supplementary Finance

I would like to comment on the proposal made by Mr. Demuth and Sir Denis Rickett on supplementary finance.

I don't think that we are essentially in disagreement. We all seem agreed (1) that if the additional finance is not forthcoming it should not mean that the proposal for supplementary finance should therefore be discarded; (2) that the Executive Directors should take a decision; (3) that existing funds of IDA and the Bank could well be used for supplementary finance.

The only point of judgment is whether any consideration of supplementary finance may jeopardize the third replenishment. If this is not felt to be so then I am quite happy to modify my own suggestion along the lines suggested by Mr. Demuth and Sir Denis Rickett.

In view of the views expressed, particularly in Sir Denis Rickett's memorandum, I am confident that the language used in making any suggestion would not invite a negative reply from the Part I countries.

ISF

cc: Mr. Knapp
Mr. Demuth
Sir Denis Rickett

Mr. Robert S. McNamara

June 8 1970

Irving S. Friedman

Supplementary Finance

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ISF

cc: Mr. Knapp
Mr. Demuth
Sir Denis Rickett

Mr. Richard H. Demuth

June 5, 1970

Irving S. Friedman

Supplementary Financing

I read with interest Ernesto's memorandum of June 3 on Supplementary Financing. However, I would have thought that for the outside world it is the Bank that is considering Supplementary Financing.

In the case of the first UNCTAD resolution we promised to come up with a Bank staff study. But, at present, it is the Bank that is supposed to consider supplementary financial measures and introduce them, if appropriate. Wouldn't this mean for any outsider that the distinction, as between the Board and the Staff, is really not relevant; or, conversely, that this distinction was relevant only for the Bank itself?

Files

June 3, 1970

Ernesto Franco-Holguin

JUN 4 1970

Supplementary Financing

12.30 p.m.

1. The original draft of the strategy for the Second Development Decade which was discussed at the last session of the Preparatory Committee in New York (May 11 - 28, 1970) contains a paragraph dealing with Supplementary Finance which reads as follows:

"(48) In the context of the search for appropriate means for dealing with the problems of disruption of development arising from adverse movements in the export proceeds of developing countries, the International Bank for Reconstruction and Development is working out arrangements for supplementary financing. The Bank is invited to consider introducing them if found appropriate."

2. The foregoing language is the same as that contained in the UNCTAD contribution to the preparatory work for DD II and is based on the resolution adopted by the Trade and Development Board at its ninth session last September inviting "the competent organs of the Bank to consider working out arrangements for supplementary finance and, if appropriate, to consider introducing them". The staff of the Bank has been working on these arrangements and a report will be submitted to the Executive Directors for their consideration.

3. As agreed with Mr. Demuth and for the sake of reflecting the facts accurately, I delivered to the Rapporteur on May 14, in writing, an amendment to the paragraph whereby the last part of the next to the last sentence would read as follows: "...the staff of the International Bank for Reconstruction and Development is working on arrangements for supplementary financing".

4. An amended text of the draft strategy submitted by the Rapporteur to the Committee later on, contained paragraph (48) as originally drafted. The Rapporteur explained to me that after consultations with delegates he had reached the conclusion that the original text should be maintained. Apparently, the opposition to the amendment had originated, mainly, with the delegates from Brazil and Chile. In conversations with those delegates I pointed out that the amendment merely reflected the facts as they were and that our intention was simply to reflect the actual situation. However, they were not willing to change their position or to listen and seemed to imply that we were deliberately attempting to weaken

June 3, 1970

the text. Several other delegates with whom I talked saw our point but considered it somewhat technical and showed no readiness to engage in a debate on what they felt was a relatively minor point among many more important issues in the draft strategy.

5. In the circumstances, and for the record, I made a statement in the plenary meeting on May 28. A copy of the statement is attached. The Chilean delegate took the floor right after me and commented that the mention of the word "staff" was not appropriate - it was the Bank as an institution and not the Bank staff who would have to work out arrangements for supplementary financing. He was quite emphatic and added that the Bank had been directed to work out the arrangements, that it should complete them soon and report promptly to the Trade and Development Board. The Chairman intervened at that point and commented that the Bank's position had been made entirely clear; that, the Chilean delegate had in fact, merely reiterated what I had said and, that the matter should not be pursued any further.

6. The delegate from France, however, insisted on taking the floor and said that his Government was not in favor of the concept of supplementary finance, that it had not supported the invitation to the Bank by the Trade and Development Board and that when the proposal was put to the Bank's Board the French director could be expected to oppose it. The Belgian and the Australian delegates said that their governments fully shared the French position. The latter added that he would have preferred paragraph (48) to reflect more faithfully what I had said regarding the status of the work by the Bank. At that point the Chairman intervened again to say that time was short and that the Committee should go on to discuss the next paragraph.

cc: Messrs. Demuth
Friedman ✓
Consolo
Sacchetti

EFranco:da

May 28, 1970

Mr. Chairman:

The Bank presented a while ago an amendment to paragraph (48) which deals with Supplementary Financing. I want to make clear that the reason for proposing the amendment was only motivated by a desire to have an accurate description of the Bank's consideration of supplementary financial measures. I am afraid that the negative reaction to the proposed amendment may be based on a misunderstanding.

As it will be recalled, the Trade and Development Board at its 9th session adopted a resolution "inviting the competent organs of the Bank to consider working out arrangements for supplementary finance and, if appropriate, to consider introducing them".

In accordance with Bank practice, the resolution was brought to the attention of the Bank's Executive Directors, and the staff is studying this question. It is preparing a report for consideration by the Directors who alone can decide whether it is appropriate for the Bank to "work out" supplementary financial measures. Accordingly, we believe that it is not accurate to state that the Bank is working out supplementary financial measures. The fact is that the staff of the Bank is working on this question and that the Executive Directors will consider the matter when the study has been submitted to them.

I would add that, as agreed between the Secretary-General of UNCTAD and the President of the Bank, a progress report on this will be made by the Bank at the next session of the Trade and Development Board.

I hope that what I have just said will have clarified any misunderstanding on this question.

Mr. Robert S. McNamara

June 3, 1970

Denis Rickett Sir Denis Rickett

Supplementary Finance

I have read the memorandum on this subject by Mr. Demuth dated May 28th and that by Mr. Friedman dated June 1st.

2. I should like to comment on the timing of the approach to the Part I countries suggested by Mr. Demuth.

3. I feel sure that he is right in thinking that it is most unlikely that there will be any support from the Part I countries for a proposal that additional funds should be contributed for supplementary finance. I should, myself, very much prefer not to have to put this question to them at all until the Third Replenishment arrangements have been finally approved by the Board at the end of July. Indeed, in my opinion it would be better to allow some interval to elapse before raising this question with them.

4. On the other hand, I do not think it can be assumed that if additional finance is not forthcoming the proposal for supplementary finance should therefore be discarded. I agree with Mr. Demuth that this is a point on which the Executive Directors should take a decision. Since IDA will now dispose of greatly increased funds and since supplementary finance would not be wholly dependent on IDA financing (some part of the supplementary finance being made available in the form of Bank loans), there might well be attraction to some of the Part I countries in using some part of IDA resources in this way. The United States, for example, might feel that a proposal of this kind to widen the purposes to which IDA credits could be used would help them in securing the ratification of the Third Replenishment arrangements by Congress.

5. My preference would be, therefore, that this matter might be raised in the Board on the general lines suggested by Mr. Demuth round about the time of the Annual Meeting, either just before or just after the meeting.

cc: Mr. Knapp
Mr. Demuth
Mr. Friedman ✓

JUN 3 1970
4 p.m.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: June 1, 1970

FROM: Irving S. Friedman

SUBJECT: Supplementary Finance

ISF

In connection with consideration of what to do next with respect to the outstanding assignments on Supplementary Finance, I would like to make the following brief comments about its past history as a background to the course of action recommended in para. 12 and to help understand the attitude I bring to this subject:

1. The original Supplementary Finance proposal of UNCTAD in 1964 was based on a suggestion of the United Kingdom which wanted to bring some positive suggestion to the First UNCTAD conference. The United Kingdom was supported by Sweden. I used the UNCTAD Resolution as the occasion to advocate something of much broader significance to the development process and the World Bank than was originally envisaged, as explained below.
2. The staff scheme did, of course, also deal with the question put by the UNCTAD Resolution as to whether unexpected shortfalls in export earnings was disruptive of development programs and if so what could be done about it. Our findings, based upon careful analysis of available historical material in the Bank, was that they were importantly disruptive and we made a specific proposal on how to deal with it. For diplomatic reasons we did not suggest that the administering agency should be IDA, nor that the funds for Supplementary Finance should take the form of an increase in the replenishment of IDA or some other form.
3. However, beyond meeting the immediate objective of the UNCTAD Resolution my purpose in making the Supplementary Finance proposal was to help establish a new relationship between the developing countries and the World Bank and between the developing countries and the creditor-donor countries. In effect it explicitly embodied the concept of partnership in which the developing countries undertook to agree their development programs and implementing policies with the international administering organization (which everybody understood would be the World Bank), and to provide a monitoring system through regular consultations with countries which would review the development program to ensure that it continued to be realistic, to agree on modifications, and to ensure that reasonably appropriate implementing policies were being pursued.

In exchange the countries were to be assured that if they pursued such policies their agreed programs would not be disrupted because of unexpected declines in their export proceeds. We defined "unexpected shortfalls" as shortfalls from the agreed expected export receipts which were incorporated into the country's development program. This was a new concept because hitherto such discussion had always been in terms of short-run fluctuations around trends which, for example, had been the basic concept underlying both the Fund Agreement and the Fund's Compensatory arrangements.

4. Our approach, by emphasizing development programs, their implementation and defense, was intended to strengthen the position of those in the developing countries who felt that the hit-and-miss methods and rule-of-thumb approaches to development had to be superseded by something more systematic and more persistently executed. We were confronted by charges that we were introducing "planning", "socialism", but were soon able to persuade the individuals expressing such views that development programming was completely compatible with either free economies, "mixed" economies, or planned economies, depending on the wishes of the country concerned.

5. Very soon in the discussions there was a challenge by some LDC's as to the role of the World Bank. Some representatives of these countries wondered whether the World Bank could be entrusted to do an impartial job in this most highly important and sensitive area. In private discussions we convinced them that it could be trusted, and in the end, even at the Algiers Conference of 77, which was a private caucus of the LDC's, the Bank staff scheme was unanimously endorsed. It was also endorsed in many other groups of LDC's, e.g. Latin American caucuses of the World Bank and Fund.

6. It is commonly believed that the reason why the LDC's supported the Bank staff scheme was that Supplementary Finance held out the promise of additional financial assistance on concessional terms. At most this was a minor element. This I know, from many first-hand discussions both with individual representatives of the LDC's or as an informal participant in their caucuses. The prime mover was the acceptance of the argument that the LDC's could not expect that in the future development assistance would be provided in substantial magnitudes on a sustained basis without assurances that such assistance would be well used. The alternatives were to have this usage monitored by individual creditor-donor countries or by a multilateral agency. The World Bank was an agency in which they were represented and could influence the general policy approaches of the institution. Prebisch, at first, suggested that the monitoring be done by a group of outside experts, but I persuaded him that the Bank could be entrusted with this responsibility and would do it efficiently as well as objectively. He became a staunch champion of the Bank's staff scheme. Mr. Prebisch also hoped that its adoption would prove that the UNCTAD could produce a major forward practical step.

7. Furthermore, the LDC's were greatly influenced by their understanding that the approach set forth in our Supplementary Finance Study meant an acceptance of the idea that development planning or programming had to be, at least, on a five-year basis -- some of us thought it even had to be longer -- and that this could prove to be a powerful lever in obtaining multi-annual commitments from multilateral and bilateral financial institutions or assistance agencies. Without such multi-annual assistance, development planning would be most difficult. If the development program was agreed with agencies having as members the very countries that provided the funds, it was hoped that there would be a much firmer basis for securing multi-annual commitments. There was also the view that the commitments might well be much larger than otherwise for basic development finance since an agreed development program would also contain a judgment on the external resources necessary and available during the coming period to make the program feasible.

8. Finally, the representatives of the LDC's could see that in such an approach there would be much closer collaboration between the Bank and the Fund, and the hope was expressed that this might move the Fund from what, at that time, seemed like a narrow preoccupation with the problems of stabilization to broader concerns with the problems of its member countries.^{1/} It may be noted that the Supplementary Finance Scheme was repeatedly favorably mentioned in our Council on Foreign Relations discussions on multi-lateral institutions by people with diverse backgrounds (and not at my initiative).

9. At first the developed countries were generally supportive of our proposal. A number, like Sweden and Switzerland, remained enthusiastic. Others, like the United States, found some technical difficulties but kept telling the developing countries and myself that their main embarrassment in supporting the proposal was the balance of payments difficulties of the United States, the difficulties of supporting any new initiative in development assistance, which soon merged together with the second IDA replenishment. The Germans had literally congratulated me on having the courage to put forward such a scheme, saying this approach was what they had favored all the time but were sure the LDC's would not buy it because of the emphasis on the need to agree on development policies. Indeed, in the discussions, the Germans did not take a hostile attitude, but wished to have a scheme more limited in financial commitments. Indeed, Germany was the one country to come up with an amendment to the staff version on Supplementary Finance. The Japanese assured me privately, that the officials in Tokyo supported our scheme but felt they could not go diplomatically further than the United States and Germany. The years I am talking about cover 1965 to about 1968 and were, of course, before the recent change in the German and Japanese attitude in favor of accelerating their aid programs without waiting for parallel action by the United States. The Canadians also became supporters. The one consistent opponent was France. In an informal meeting of the B.I.S. the Europeans present expressed informally their support for our approach. Throughout this period we kept close touch with the senior levels of the U.S. Government, at least in State and Treasury. However, we did not try to discuss this at a level higher than the Assistant Secretary.

10. Our discussions on the scheme made, I believe, a great contribution in giving the LDC's greater confidence in the genuine interest of the World Bank Group in their efforts. It helped make the World Bank Group credible as a leader in achieving a partnership between the LDC's and the World Bank for the necessary economic and social transformation of the LDC's without which our development objectives cannot be achieved. Supplementary Finance, being in the financial field, is something the World Bank Group could do if member countries concerned so decided. Moreover, it could be done relatively quickly.

^{1/} Fund representatives were very disturbed, and said so to me, that I should be advocating a scheme which erected for the Bank a role which rivalled the Fund, namely, country reviews. They were particularly hurt, they said, because I had been the originator of such Fund consultations and responsible for such for over a decade. They did not accept the explanation, which I believe they now understand, that the Bank annual country reviews would be substantively very different in purpose and content and, in the longer run, Bank activities of this kind would strengthen, not weaken, the Fund.

Supplementary Finance was the only important major development finance innovation in the 60's and member countries could see that we were advocating this on our own initiative. I was repeatedly told in these discussions that nothing had done as much in the LDC's to convince them of our genuine interest in their welfare than our independent course of action on Supplementary Finance. At the same time it was the major topic in the financial field at UNCTAD II -- a conference generally noted for gloom and despair -- and helped keep alive a hope that a bridge might eventually be built between the LDC's and the developed countries in the field of development. The resolution to keep Supplementary Finance alive came after protracted consideration in UNCTAD II.

11. I could readily document in great detail the statement made above. It is because of this history that I have felt strongly that any withdrawal of staff support for Supplementary Finance, if it had to be done, should be done in such a way so as not to hurt the confidence of the LDC's in the World Bank or to embitter further the attitude of the LDC's towards the richer countries. It may well be that Supplementary Finance, for all practical purposes, is dead. It may be that through the mechanism of consultative groups, etc., we can achieve much of the aims of Supplementary Finance. Indeed, through the discussions on Supplementary Finance we brought about a situation in which nearly all countries came to take for granted the idea of regular consultations with the World Bank on their economic development programs and policies.

12. In this sense some of the fruits of Supplementary Finance Scheme have already been gained. But I believe there are still great advantages to be gained by keeping the Scheme alive, unless, of course, it is killed on the initiative of some member countries. Since any consideration of Supplementary Finance may jeopardize the Third Replenishment (a view reinforced after conversation with Sir Denis Rickett), I would suggest that we tell the Board that we do not intend to make proposals on Supplementary Finance until after the Third Replenishment is consummated. Then we could consider whether we should finance any scheme with existing IDA/Bank funds or suggest additional funds. In the meantime, we would not raise the matter in any way in the Third Replenishment. To do so would invite a negative reaction. Given past history there is a good chance that the matter will simply not be raised during the coming months in the IDA negotiations. If any member country did so, we could suggest that it was inappropriate to consider it at this late stage in the replenishment negotiations, and say that we intended no consideration until the IDA replenishment was consummated. If, at its own initiative a country would insist that its contribution to the Third Replenishment was conditional on no future additional money for Supplementary Finance, or no use of any of the new money for Supplementary Finance, it would be up to the Part I donors to decide what attitude to take. If a negative attitude prevailed, we would in due course report this to our Executive Directors.

13. In more recent discussions some of the former individual enthusiastic supporters of Supplementary Finance have said to me that they thought it was doomed because it was ahead of its time, that the world was not ready for the advanced thinking represented in our proposed scheme. This, of course, is quite possible. Moreover, the enthusiasm which kept the proposal alive for four years may well have waned and forward momentum lost. It could be that

Supplementary Finance must await a new era of hope and major forward movement in development finance. However, this does not invalidate the basic validity of the approach in our proposal. My own personal conviction is that some day it will come into existence in one form or another whether financed by the World Bank Group or otherwise, since it addresses itself to a problem that becomes increasingly important as the world moves more widely toward meaningful development and programs and gives truer allegiance to the objectives of development whether in the developing or the developed countries, and practical ways to achieve these objectives. I hope that if, and when, it does materialize, it will do so in a way that redounds to the credit of the World Bank Group. My hope is that by saying the least possible now, it will maximize the chance of keeping the proposal alive.

cc: Mr. Knapp
Mr. Demuth
Sir Denis Rickett

OFFICE MEMORANDUM

FEB 3 - 1970

TO: Files

FROM: Ugo Sacchetti *U.S.*

SUBJECT: Supplementary Finance

DATE: January 30, 1970

Mr. Friedman and Mr. Sacchetti met today with Mr. Ulricksen, Deputy Head of the Danish Development Assistance Administration, and Mr. Erik Hauge (also from Denmark) Alternate Executive Director for the Scandinavian group of countries. The subject of the discussion was Supplementary Finance. Mr. Friedman outlined briefly the position of the World Bank Group with respect to supplementary finance arrangements with reference to the Resolution adopted September, 1969 by the Trade and Development Board. Mr. Friedman made the main point that in the Bank there is no difficulty either with the concept of, and need for, supplementary finance, or with the possibility of implementing supplementary finance arrangements. The latest TDB Resolution imposed a number of constraints for the formulation of a new scheme, some of which are not favored in the Bank, but the view is still held within the Bank that the corresponding arrangements are workable. A difficulty arises, however, in connection with the Third Replenishment of the resources of IDA. It is a matter of judgment whether a new proposal for supplementary finance should be discussed simultaneously with the Replenishment or as a separate proposition. A major aspect of this dilemma is a question of additionality of resources. Although the spirit of the TDB Resolution is that funds for supplementary finance should be additional to other sources of development finance, it is practically impossible to be sure that any amount which should be obtained for supplementary finance is truly additional. This is true whether or not the resources are segregated in a special fund or included in the IDA Replenishment. The papers which have been prepared within the staff in response to the TDB Resolution are now being considered at the level of the President's Council. There is no indication as to what the final decision will be as to the timing of the submission of the proposal.

Mr. Ulricksen outlined the position of Denmark in respect of supplementary finance. He recalled that the Danish Government has been in favor of the arrangement from the very beginning and that it continues to do so. As to whether additional resources would be contributed by Denmark, the matter would have to be considered within the context of the aid policy of the country. Denmark has been implementing a five-year program of increasing foreign aid, which will terminate in 1972. The policy of the Government is, however, to continue to increase foreign aid in the years following 1972 and the target is to reach 1% of National Income in 1975. For the second part of the decade the overall policy direction is to follow the recommendations of the Pearson Commission and it is expected that the target of 1% of gross national product will be attained sometime before 1980. As to the composition of foreign aid,

Mr. Ulricksen pointed out that at present there are four categories of aid transactions: financial aid subdivided into multilateral and bilateral; and technical assistance also subdivided into multilateral and bilateral. Each of these four categories receive at present about 25 percent of the total. Any amount which should be destined to supplementary finance would have to be obtained at the expense of any of these categories. Therefore, in this total sense there would be no additionality. However, the policy of Denmark is to increase the proportion of multilateral financial aid and therefore any funds which would be voted for supplementary finance would increase this type of aid and would reduce either bilateral financial aid or technical assistance in one form or another. This is not difficult to achieve in view of the fact that the total amount of aid is supposed to increase. Therefore, an increase in the proportion of multilateral financial aid would not necessarily involve a decrease in the absolute amount of other forms of aid. In this sense, the resources for supplementary finance would be additional. Mr. Ulricksen concurred in the view expressed during the discussion that a shift of resources to supplementary finance could be facilitated, in addition to the political support, by the observation that this form of development finance may imply a higher rate of return than other forms of aid particularly the bilateral ones.

US:cfr

Mr. McNamara

May 28, 1970

Richard H. Demuth

Pearson Commission Recommendation on Supplementary Finance

The Pearson Commission recommended that discussions leading to a program of supplementary finance should be expedited and there is an outstanding request from UNCTAD to consider this matter. You have said that you did not wish to send forward to the Executive Directors a memorandum on this subject until agreement was reached on the IDA replenishment. Now that that agreement has just about been concluded, I suggest the following for your consideration:

I believe that the first step should be to find out from the Part I countries whether they are prepared to consider a supplementary financing scheme involving additional funds or whether, in agreeing to contribute to the Third Replenishment, their understanding was that these would be the only amounts to be contributed directly to IDA for the replenishment period. Denis Rickett could probably readily ascertain the position of these countries through the Executive Directors. In the unlikely event that there is support from the Part I countries for proceeding with supplementary finance with additional funds, we should prepare a staff proposal for discussion by the Executive Directors, and should inform the Directors of the date when we expect to submit the proposal to them.

If, on the other hand, as seems probable, the Part I countries confirm that they are not prepared to consider contributing any additional funds to IDA for supplementary finance, at least for the time being, I believe that we should report this fact to the Board. The Board should also be told, however, that this circumstance would not preclude the possibility of using some part of the replenishment funds (and perhaps some Bank resources as well) for supplementary financing purposes. You should point out that, when UNCTAD's Trade and Development Board invited the Bank to consider working out and, if appropriate, introducing arrangements for a discretionary scheme of supplementary finance, it specifically directed the Bank's attention to the view of the Intergovernmental Group on Supplementary Finance that "it would be of little value merely to divert available resources from basic development finance for the purpose of supplementary financing." You should nonetheless tell the Directors, I believe, that, if they are disposed to consider supplementary finance as having as high a priority as basic development finance in the use of Bank and IDA resources, or wish to have a specific proposal to look at before deciding this issue, you will instruct the staff to prepare appropriate proposals and will schedule them for prompt discussion by the Board. You should add, however, that, before so instructing the staff,

May 28, 1970

you wish to have the views of the Executive Directors so that, if there is no disposition to go ahead with supplementary finance in the absence of additional funds, unnecessary staff time will not be spent in preparing proposals. Finally, I believe that you should tell the Directors that, if they do not wish to go ahead with supplementary finance in the absence of additional funds, you intend to put supplementary finance to one side for an indefinite period.

The approach I have proposed would also serve to put us in a position to respond to the request of the UNCTAD Trade and Development Board to report on the status of supplementary finance at their meeting in August.

May I have your reaction, please?

RHD:tf

cc: Mr. Friedman, Sir Denis Rickett

DRAFT
NASarma
10/10/69

Supplementary Finance and IDA Third Replenishment

Introduction:

The Inter-Governmental Group on Supplementary Finance made an interim report to the Second Session of the United Nations Conference on Trade and Development. It was reconstituted and made a Final Report to the Ninth Session of the Trade and Development Board. At this Session of the Trade and Development Board, a resolution was adopted on supplementary finance, supported by most donor countries and all LDC's. By this Resolution, the TDB agrees with the conclusions of the Inter-Governmental Group on S.F., and requests the IERD to consider working out supplementary financing arrangements, on the basis of the conclusions of IGG and, if appropriate, to consider introducing them. (The TDB Resolution on S.F. is attached hereto; the conclusions of IGG are annexed to the Resolution). It may be noted that, in voting for the Resolution, no reservations were made by most donor countries: U.K., USA, Germany, the Netherlands, Canada, Italy, Sweden, Switzerland. Among donor countries, France and Belgium abstained. These two countries, as also Australia, made important reservations. Japan, expressing agreement, made a guarded statement about the cost of implementing any new arrangement. The Second Session of the Conference was one turning point in the discussion; the decision taken at the Ninth Session of the Board a second. The Pearson Commission has recommended that "discussions leading to a new program of S.F. be expedited" (Report, page 86; also, pages 15, 97).

2. The Recommendation of UNCTAD I on Supplementary Financial Measures (Geneva, June 1964) had stated that the resources for this purpose, to be administered under the IDA, should be in the form of additional contributions by all the major Part I countries. Our staff study was deliberately silent on questions of management. The Inter-Governmental Group on supplementary finance, in their recommendation to TDB (July 1969) stated that Supplementary Financial Measures should be administered within the World Bank Group in consultation with the Fund, and that it would be of little value merely to divert available resources from basic development finance for the purpose of supplementary financing. The TDB has agreed with this view. Representatives of India, Brazil and other LDC's have consistently urged that resources for S.F. should be additional. We, on our part, in the discussions on supplementary finance, have throughout stated that resources for S.F. should be additional to basic development finance. Especially when aid flows are levelling off, a new initiative like S.F. intended to meet a felt need of several LDC's could become a means of not only maintaining but increasing total aid flows.

3. During the IGG discussions and in the TDB meeting, specific references were made by some representatives to IDA replenishment and S.F. Canada expressed the view that "there is merit in integrating the S.F. facility into an expanded IDA". U.S.A. and U.K. have also referred to this matter in IGG sessions. Representatives of some other donor countries have expressed similar views in informal meetings. At the fourth IGG session (October 1968) the U.S. member stated that the resources for S.F. might be

provided through an increase in the resources of IDA in the course of third or a subsequent replenishment. At the final session of IGG (June-July 1969), the U.S. representative agreed that the comments and suggestions of Canada were useful.

4. With the request now made to the Bank by TDB with respect to working out S.F. arrangements, with a view to possible implementation, the relationship of S.F. with IDA replenishment, and the timing of the two exercises, in particular of the discussions leading to commitment of funds by donor countries, become urgent. We have to consider supplementary finance in the context of the timetable and procedures we are proposing for negotiations leading to the third replenishment of IDA. The impact of S.F. on the availability of resources for IDA, especially through the third replenishment, is an important concern to us. It is a concern of governments of Part I countries too. The concept of additionality of funds has to be kept clearly in mind when the idea is put forward that some form of supplementary financing be turned over to IDA as an added function. If, as we hope, funds for supplementary finance are in fact additional to funds IDA would otherwise have received, S.F. may still involve some diversion of other aid funds, say, from bilateral programs; the advantage would still be in increased multi-lateral channelling of aid funds, and thereby untying more aid. From our own viewpoint, therefore, in the interest of enlarging development finance flows to LDC's, attempt should be first to obtain a clear picture of the scale of third replenishment for IDA. After that, S.F. could become an added function of IDA, if our Board of Directors so agree, provided additional resources for

this purpose are forthcoming from governments. Then, the total of IDA replenishment, itself on a larger scale than hitherto, and S.F. together could be larger than what otherwise would be for IDA purposes only.

Some Alternatives:

5. With respect to the timing of negotiations about funds for supplementary finance there are several alternatives for consideration:

(i) The negotiations for S.F. and IDA third replenishment to be taken up concurrently: Then, donor governments can agree on one amount that would cover both IDA funds for regular purposes and for S.F. This is not practicable as staff work on S.F. has to be done and preliminary consultations with some donor countries are also indicated on a framework for S.F. arrangements. If the two exercises (S.F. and IDA replenishment) were to be taken up now, simultaneously, IDA replenishment itself may get deferred.

(ii) Another approach would be to defer active consideration of S.F. until after IDA third replenishment is completed, including legislative approval. On present thinking, this would be July 1971. Looking ahead, assuming a three-year third replenishment, and also assuming a similar timetable for fourth replenishment, i.e. if the fourth one is to be completed by June 1974, its serious consideration should commence before the end of 1972. On this reasoning, and given the assumptions with respect to the timetable and the time period to be covered by the third replenishment, about a year (July 1971-September 1972) would be the interval between the two replenishments, which could be used for negotiating S.F. arrangements and funds, without

overlapping the negotiations for IDA replenishment. While this may seem a plausible and seemingly attractive course, there are certain considerations against this course: a) The timetable for IDA replenishment may not actually turn out to be as we now envisage, and the time interval may be much less; b) The LDC's, as well as some among the major donor countries, would be disinclined to such delay in initiating S.F. arrangements, though they do not expect a S.F. arrangement to become effective for a year or so; c) UNCTAD III is likely to be held in 1971, and governments would like to be able to establish S.F. arrangements by then. (The recommendation on Supplementary Financial Measures was first adopted in June 1964 at UNCTAD I; the purpose was reaffirmed in March 1968 at UNCTAD II, and the agreement on S.F. among LDC's and most donor governments was reached in September 1969); d) Can the Bank really engage itself in an uninterrupted and continuing process of negotiating with governments for contributions, and would governments themselves be in a position to approach their legislatures in turn for a series of appropriations, one after another, for Bank Group?

(iii) A third alternative would be to press ahead with the third replenishment, with a view to securing agreement on amounts by June 1970; meanwhile complete the staff work (including preliminary consultations with some governments) with respect to S.F., and then start negotiating with governments about finances, etc. Adopting such a middle course, it is quite possible that actual requests by some governments to their national legislatures for appropriations for S.F. may not be in separate Bills but may get merged in the requests for IDA third replenishment, i.e. in the first half of 1971.

Such timing would seem to meet the main considerations mentioned above regarding the need to secure a larger replenishment for IDA and further funds for S.F. purposes.

Appropriate Course:

6. It may be recalled that while they agreed with the TDB Resolution on S.F. without any reservation, USA did not agree to any prescribed time schedule for working out a scheme or implementing it. This does not imply an intention to postpone action indefinitely; it only indicates the need for adequate consideration. Accordingly, the finalization of S.F. need not proceed concurrently with that of third replenishment of IDA. Again, the Resolution adopted by TDB on S.F. envisages arrangements that are likely to be significantly different from the proposal put forward earlier by the Bank staff. What is now approved is an essentially more discretionary scheme; in particular, Germany, USA and Canada have favoured this approach. It may be recalled that these countries were critical of certain main features of the Bank staff scheme -- especially a predetermined export norm and "automaticity". What is very clearly reaffirmed is the objective of the 1964 Recommendation; preventing disruption of development programs which might result from unforeseen shortfalls from reasonable expectations of export earnings. Therefore, before putting up any proposals to our Board of Directors for active and formal consideration, it is necessary to consult with these governments regarding the essential framework. This would require time for us and for them. They would wish to have opportunity to reflect on

these matters, and, probably, to consult among themselves. Therefore, it is unlikely that we would be able to finalize any proposals on S.F. by the time IDA replenishment takes definitive shape.

7. As stated to us, the U.S. thinking on the arrangements for supplementary finance is as follows: The purpose of the U.S. authorities in agreeing to the decision taken by the TDB about supplementary finance is to strengthen the case for a significant increase in IDA. Their opposition to setting any date for action by the Management or Board of the Bank was derived from a desire to leave the utmost freedom to the Bank. In particular, they wish the Bank to be free to ascertain by consultations with potential contributors how and when the arrangements for supplementary finance which it might devise could contribute to a larger third replenishment. They believe that only the Bank's Management can make this decision and that it can only do so after these consultations have been held. Further, if arrangements are agreed on, they wish the Management to have a high degree of discretion in adjudicating claims for assistance. They do not wish IDA's ability to use its resources fairly freely to be limited by reserving a fixed part of them for this one use. It would appear these views are shared by some other donor countries (Germany, Canada).

8. The timetable for third replenishment envisages concluding the negotiations with Part I countries by the end of June 1970, approval by the Executive Directors by the end of July 1970, and bringing into effect these arrangements after approval by the respective national legislatures not later than July 1971. Keeping in view the U.S. situation today --

i.e. two appropriations still to be made for second replenishment,^{1/} review of aid policy by the new Administration which has just begun and which may only be completed by March or April 1970, it is possible that a definite commitment by USA with respect to third replenishment of IDA may take somewhat longer than June 1970; though for different reasons, especially as some of them would first like to know the U.S. position, this may apply to some other governments also.^{2/} (Of course, if there should be undue delay, an interim replenishment has to be thought of.) Even if the timetable we now have in mind should materialize, it would be advisable to proceed on the basis that any formal proposals with respect to S.F. can be made to our Board and governments only after mid-1970. Meanwhile, our own staff work on the issues involved with respect to S.F. arrangements, as well as some preliminary consultations with the Fund and interested donor governments could proceed, so that proposals for action can be made once IDA replenishment is agreed on.

^{1/} One is due in November 1969, and is in a Bill now before the Congress; the final one is due in November 1970, and will be included in budget message for fiscal 1971.

^{2/} The recommendations of the Pearson Commission with respect to IDA organization and procedures may also have this effect: "... that the President of the World Bank undertake a review of the need for organizational change of the IDA as its functions increase ... that IDA formulate explicit principles and criteria for the allocation of concessional development finance and seek in its policies to offset the larger inequities in aid distribution" (pages 226-227).

9. There is, no doubt, another possibility. In view of the background of discussions, some governments themselves may raise the question of S.F. concurrently with IDA replenishment negotiations. Canada may raise it with a view to obtaining the largest possible scale of replenishment for IDA; as noted above, USA could adopt this view. The U.S. Administration may feel that, at the time of going to Congress for appropriations, S.F. as an added function of IDA may prove a useful argument for an enlarged replenishment. Germany has taken an active part in S.F. discussions; an alternative proposal was, in fact, advanced by her in the IGG which formed a basis for the final outcome. Therefore, Germany might want to know our view of S.F. requirements -- at least the broad orders of magnitude -- in conjunction with IDA needs. Whatever the reasons underlying, one or the other of these governments may raise discussion of S.F. alongside of IDA replenishment.

10. Our response could still be that the balance of advantage lies in keeping the discussion of S.F. distinct, to be taken up after IDA replenishment arrangements are agreed upon at least tentatively; that, in any case, IDA replenishment has to be according to a realistic assessment of requirements for IDA purposes, and any allocation for S.F. should be in further amounts for this added function. This argument could be buttressed by other considerations: i) being an innovation, it would take longer to negotiate and decide on a S.F. scheme than on replenishment; ii) at least for some time, until sufficient experience is gained, it would be appropriate to keep the S.F. function distinct, while being administered by IDA; iii) the terms of S.F. assistance, while they are likely to be concessional generally,

need not be the same as those of IDA credits; iv) qualifying criteria for a country under S.F. would not all be the same as for IDA credits.

11. In the Bank staff study, we placed the financial requirements for S.F. at an annual average of \$300-400 million. Taking into account available data for recent years also, we revised the estimate later to \$300 million a year, and furnished this to the IGG. Necessarily, these or any other estimates are subject to limitations. The UNCTAD Secretariat estimated that the cost of the alternative scheme that was proposed by Germany might have been \$200-250 million per annum during 1954-65. The question of resources required for S.F. would need to be examined again. Even so, especially when the arrangements are intended to be essentially discretionary, considerable judgment would be involved, and the purposes would have to be met within the financial limits agreed upon by governments. If required, we may indicate to governments that a sum of up to, say, \$250 million a year should be thought of for this purpose, with provision for rationing devices, for carrying over unused funds year to year, and for transferring unused funds to other IDA purposes. In effect, there would be a maximum ceiling on the resources applied to supplementary finance within any 3- or 5-year period. But, this, above all, is a subject for consultation with governments.

12. Mainly arising from limited funds, IDA credits are not available to several LDC's. Especially in Latin America, this has led to frustration and criticism; some of these countries are burdened with excessive debt-service charges, and they are obliged to borrow at 7 per cent and more, even

from us. As the scale of Bank loan financing continues to expand, as indeed it should, the servicing of our loans would become increasingly onerous for a number of our client countries because of the high interest rate charges. A substantial expansion in the resources of IDA, desirable and necessary by itself and for IDA purposes, would also help to mitigate the debt-servicing problem by enabling blending of Bank loans and IDA credits in a wider range and to more countries. A merit of S.F. is that it would be available to any developing country that faces a given situation and qualifies for assistance in the view of the administering authority. It could also provide a possible window for some program financing, alongside of project financing, not as a rule or in an unlimited manner but under specified conditions. Thus, it can be a useful adjunct to IDA functions, and introduce a measure of flexibility to IDA operations.

Mr. Irving S. Friedman

October 10, 1969

N. A. Sarma

N. A. Sarma

OCT 10 1969

3 p.m.

IDA Replenishment and S.F. -

Please refer to your memo of September 26 to Mr. McNamara on S.F. - outline of work, para. 8. You stated that a memorandum on IDA replenishment and S.F. would be available in about two weeks. Herewith a note on this subject.

I am placing below two texts: one a brief one, and another an expanded presentation. You may like to use whichever is more appropriate. (I have consulted Messrs. Isaiah Frank, Jo Saxe and Bimal Jalan on this question).

Attachments

DRAFT
NASarma
10/10/69

Supplementary Finance and IDA Third Replenishment

In a Resolution adopted at its ninth session in September 1969, supported by most donor countries (except France and Belgium which abstained) and by all LDC's, the TDB has invited the IBRD to consider working out supplementary financing arrangements and, if appropriate, to consider introducing them. The Resolution reflects the consensus among governments that supplementary finance should be administered by the Bank Group.

2. During discussions in IGG and TDB sessions, Canada expressed the view that "there is merit in integrating the S.F. facility into an expanded IDA". The USA and some other donor countries seem to hold similar views. A clear consensus has not, however, emerged on this.

3. The desirability of integrating S.F. into an expanded IDA has two aspects. One relates to the way in which S.F. would be administered -- whether as a separate 'unit' or simply as an additional function in an enlarged IDA. The other relates to the timing of the Bank's work on S.F. in relation to the third replenishment. We need not deal with the first issue at this time. As to the second issue our main concern is with the "additionality" of resources for S.F. IDA is a primary responsibility of ours and we cannot allow its replenishment at higher levels to be compromised by other considerations and requirements. At the same time, now that most governments are agreed on the need for ^{any} the objectives of supplementary finance and have asked us to formulate arrangements for the purpose, with

a view to considering implementation, this task cannot be indefinitely or unduly deferred either. We should, therefore, seek a course that would best ensure additionality of resources for S.F. purpose, i.e. over and above what otherwise would be forthcoming for IDA.

4. With respect to the timing of negotiations about funds for supplementary finance there are several alternatives for consideration:

(i) The negotiations for S.F. and IDA third replenishment to be taken up concurrently: Then, donor governments can agree on one amount that would cover both IDA funds for regular purposes and for S.F. This is not practicable as staff work on S.F. has to be done and preliminary consultations with some donor countries are also indicated on a framework for S.F. arrangements. If the two exercises (S.F. and IDA replenishment) were to be taken up now, simultaneously, IDA replenishment itself may get deferred.

(ii) Another approach would be to defer active consideration of S.F. until after IDA third replenishment is completed, including legislative approval. On present thinking, this would be July 1971. Looking ahead, assuming a three-year third replenishment, and also assuming a similar timetable for fourth replenishment, i.e. if the fourth one is to be completed by June 1974, its serious consideration should commence before the end of 1972. On this reasoning, and given the assumptions with respect to the timetable and the time period to be covered by the third replenishment, about a year (July 1971-September 1972) would be the interval between the two replenishments which could be used for negotiating S.F. arrangements and funds, without overlapping the negotiations for IDA replenishment. While this may seem a plausible

and seemingly attractive course. there are certain considerations against this course: a) The timetable for IDA replenishment may not actually turn out to be as we now envisage, and the time interval may be much less; b) The LDC's, as well as some among the major donor countries, would be disinclined to such delay in initiating S.F. arrangements, though they do not expect a S.F. arrangement to become effective for a year or so; c) UNCTAD III is likely to be held in 1971, and governments would like to be able to establish S.F. arrangements by then. (The Recommendation on Supplementary Financial Measures was first adopted in June 1964 at UNCTAD I; the purpose was reaffirmed in March 1968 at UNCTAD II, and the agreement on S.F. among LDC's and most donor governments was reached in September 1969.); d) Can the Bank really engage itself in an uninterrupted and continuing process of negotiating with governments for contributions, and would governments themselves be in a position to approach their legislatures in turn for a series of appropriations, one after another, for Bank Group?

(iii) A third alternative would be to press ahead with the third replenishment, with a view to securing agreement on amounts by June 1970; meanwhile complete the staff work (including preliminary consultations with some governments) with respect to S.F., and then start negotiating with governments about finances, etc. Adopting such a middle course, it is quite possible that actual requests by some governments to their national legislatures for appropriations for S.F. may not be in separate Bills but may get merged in the requests for IDA third replenishment, i.e. in the first half of 1971. Such timing would seem to meet the main considerations mentioned above regarding the need to secure a larger replenishment for IDA and further funds for S.F. purposes.

5. An attempt should be made first to obtain agreement on the scale of third replenishment for IDA. After that, S.F. could become an added function of IDA, if our Board of Directors so agree, provided additional resources for this purpose are forthcoming from governments. Then, the total of IDA replenishment, itself on a larger scale than hitherto, and S.F. together would be larger than what otherwise would be for IDA purposes only. As stated to us, the U.S. thinking on the arrangements for supplementary finance is as follows: The purpose of the U.S. authorities in agreeing to the decision taken by the TDB about supplementary finance is to strengthen the case for a significant increase in IDA. Their opposition to setting any date for action by the Management or Board of the Bank was derived from a desire to leave the utmost freedom to the Bank.

6. The timetable for third replenishment envisages concluding the negotiations with Part I countries by the end of June 1970, approval by the Executive Directors by the end of July 1970, and bringing into effect these arrangements after approval by the respective national legislatures not later than July 1971. In view of this, it would be advisable to proceed on the basis that any formal proposals with respect to S.F. can be made to our Board and governments only after mid-1970. We cannot expect them to be formally seized of this matter until after IDA amounts are agreed upon. Meanwhile, our own staff work on the issues involved with respect to S.F. arrangements, as well as some preliminary consultations with the Fund and interested donor governments could proceed, so that proposals for action can be made once IDA replenishment is agreed on.

7. There is, no doubt, a possibility that, in view of the background of discussions, some governments themselves may raise the question of S.F. concurrently with IDA replenishment negotiations. Our response could still be that the balance of advantage lies in keeping the discussion of S.F. distinct, to be taken up after IDA replenishment arrangements are agreed upon at least tentatively; that, in any case, IDA replenishment has to be according to a realistic assessment of requirements for IDA purposes, and any allocation for S.F. should be in further amounts for this added function. This argument could be buttressed by other considerations: i) being an innovation, it would take longer to negotiate and decide on a S.F. scheme than on replenishment; ii) at least for some time, until sufficient experience is gained, it would be appropriate to keep the S.F. function distinct; iii) the terms of S.F. assistance, while they are likely to be concessional generally, need not be the same as those of IDA credits; iv) qualifying criteria for a country under S.F. would not all be the same as for IDA credits.

OFFICE MEMORANDUM

CONFIDENTIAL

TO: Mr. Irving S. Friedman

DATE: October 6, 1969

FROM: Jo W. Saxe JWS

DECLASSIFIED OCT 6 1969

MAR 28 2013

S. 20 JWS

SUBJECT: Supplementary Finance

WBG ARCHIVES

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

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

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

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

IDA Third Replenishment and Supplementary Finance

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

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

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

JWS:mmm-v

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: October 6, 1969

FROM: Irving S. Friedman

SUBJECT: Supplementary Finance: Outline of Work: Answers to your Questions

You have asked a number of questions on my memorandum to you of September 26 "Supplementary Finance: Outline of Work". Some of these questions were dealt with in my memorandum to you of the same date on the U.S. position on S.F. However, for convenience, I am clarifying the position with respect to each question below. As requested, my memorandum of September 26 is returned herewith.

1. Substance of the Decision taken by TDBWhat does the Resolution say?

Please see the resolution attached hereto. The Board, agreeing with the conclusions of the Inter-Governmental Group, invites the competent organs of the IBRD to consider working out arrangements for S.F. and, if appropriate, to consider introducing them.

What were the Conclusions of the IGG?

The conclusions of the IGG are annexed to the resolution adopted by the TDB, and are as follows:

- (i) Arrangements for supplementary finance can be designed to help meet the problem of disruption of development arising from adverse movements in the export proceeds of developing countries.
- (ii) Supplementary financial measures should be administered within the World Bank Group in consultation with the International Monetary Fund.
- (iii) In the operation of any supplementary financial measures discretion should be left to the Agency so as to ensure the best possible adaptation to the merits and needs of each case in meeting the objectives expressed in paragraph 2 of decision 30(II). It can be expected that on the basis of the experience gained in the operation of supplementary financial measures appropriate objective criteria will be developed so as to provide reasonable assurance of help to protect a country's development plan or programme against the effects of export shortfalls. The Agency would take into account the development plan, including its targets, and all information relevant to the objectives of supplementary financial measures.
- (iv) Any understandings involved in the operation of supplementary financial measures should be no different in character from those which now arise in the relationships between the Bank and member countries.

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

What evidence is there that the Board agrees with the conclusions?
Did the U.S. representative?

In the resolution itself it is stated that the TDB agrees with the conclusions of the IGG. The U.S. representative at TDB session voted for the resolution, and did not make any reservation to any part of it. Similarly, at the final session of IGG earlier, the U.S. member of the Group did not reserve his position on any of the conclusions of the Group. In voting for the resolution at TDB he agreed with the conclusions of IGG also, as these conclusions are annexed to the resolution and form part of it.

Paragraph 2

Did the governments reaffirm (when did they first affirm) that a "scheme be formulated and administered" or did they ask the Bank to study and evaluate such a scheme?

The purposes of supplementary finance were first stated in a recommendation adopted in June 1964 by UNCTAD I and were reaffirmed in a resolution adopted in March 1968 by UNCTAD II. (Please see the two recommendations attached hereto.) The objective is reaffirmed in the preamble to the operative part in the resolution adopted by TDB.

In the recommendation adopted by UNCTAD I it is stated that the resources for the scheme would be administered under IDA. One of the conclusions of the IGG reads: "Supplementary financial measures should be administered within the World Bank Group in consultation with the International Monetary Fund." The TDB resolution, as noted earlier, invites the competent organs of the IBRD to consider working out arrangements for S.F. and, if appropriate, to consider introducing them. (The original recommendation of UNCTAD I had invited the IBRD to study the feasibility of a scheme and, if appropriate, to work out such a scheme. There is no reference in the present resolution of TDB to a study or evaluation.) As for the terms "to consider" and "if appropriate" in the resolution of TDB, while they reflect a compromise between different approaches, essentially they reflected the desire of most delegations not to appear as if they were instructing the Bank. This is the understanding of Sarma who attended the TDB session. Some representatives who were in the contact group that worked to finalize the text of the resolution also told Sarma that the wording reflected courtesy to the Bank.

Paragraph 8

Which ones and what evidence? (Referring to Canadian "view that 'there is merit in integrating the S.F. facility into an expanded IDA.' Several donor countries are evidently thinking on the same lines.")

It may be recalled that the original recommendation of UNCTAD I itself spoke of resources for S.F. scheme being in the form of additional commitments, prescribed in advance, for contribution to IDA. In the present TDB resolution, while it is not categorically stated, the general view emerges that financial resources for S.F. be considered in terms of additions to basic development finance.

A conclusion of the IGG (see p.2(v) above) is: "it is the general consensus of the Group that it would be of little value merely to divert available resources from basic development finance for the purpose of supplementary financing ..." In agreeing with the conclusions of IGG, in its resolution the TDB specifically invites the IBRD to give attention to this conclusion of IGG.

At the final session of IGG (June 25, 1969) Canada agreed in principle to S.F. but not to specific features and saw some merit in integrating S.F. into an expanded IDA. Following the remarks made by the Canadian representative, the U.S. representative stated that: While considering the comments of the Canadian representative as very useful at the present stage it was difficult to compare the IBRD scheme to the discretionary scheme for while the former was a fully developed scheme, the latter contained only a set of ideas not fully developed. If the discretionary scheme's approach were accepted, much further work would be required to make it workable.

At the previous session of IGG (October 24, 1968) in a statement the U.S. member observed:

"My delegation would certainly hope that there can, in the third or subsequent replenishment of the IDA, be achieved a more substantial increase in the resources of IDA than was agreed upon in the case of the second replenishment. We feel that such a replenishment might reasonably involve enlarging the functions and the clientele of IDA to provide for supplementary financing, on the assumption and if it were decided at that time, that this represented the highest priority claim on additional IDA resources."

Again, at the TDB session (August 1969), in a general statement to a plenary session of the Board covering only two main agenda items -- preferences, and supplementary finance -- the Canadian representative said:

October 6, 1969

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

At the final session of IGG, the U.K. member reiterated the support of U.K. to S.F. He said that the problem that S.F. was intended to deal with was a serious one, but this should not be permitted to affect IDA replenishment.

Sarma informs me that in informal talks which he had with delegates both at IGG meetings and at the TDB session, representatives from some other donor countries (Sweden, Switzerland) expressed similar views, i.e. if S.F. is to be entrusted to IDA, it can only be in terms of enlarged resources for IDA.

Paragraph 10

How did it emerge, i.e. "quotes"? (Referring to U.S. having agreed to decision of TDB "has refrained from indicating any time schedule for working out the scheme or implementing it. This view of the U.S.A clearly emerged during the informal consultations preceding the agreed text.")

This is what some of the participants in the "contact group" discussions told Sarma. For instance, there was a view expressed by some LDC's that there should be a progress report from the Bank to TDB for the latter's **tenth** session (i.e. by August 1970); the U.S.A. did not agree with this. The approved final text only asks the Bank to make available progress reports to TDB from time to time. However, being informal consultations, there is no record available of the discussions in "contact group", and no formal statement of the U.S. is available on this matter.

Attachments

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

The Trade and Development Board,

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

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

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

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

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

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

See Annex A

ANNEX A

- (i) Arrangements for supplementary finance can be designed to help meet the problem of disruption of development arising from adverse movements in the export proceeds of developing countries.
- (ii) Supplementary financial measures should be administered within the World Bank Group in consultation with the International Monetary Fund.
- (iii) In the operation of any supplementary financial measures discretion should be left to the Agency so as to ensure the best possible adaptation to the merits and needs of each case in meeting the objectives expressed in paragraph 2 of decision 30(II). It can be expected that on the basis of the experience gained in the operation of supplementary financial measures appropriate objective criteria will be developed so as to provide reasonable assurance of help to protect a country's development plan or programme against the effects of export shortfalls. The Agency would take into account the development plan, including its targets, and all information relevant to the objectives of supplementary financial measures.
- (iv) Any understandings involved in the operation of supplementary financial measures should be no different in character from those which now arise in the relationships between the Bank and Member countries.
- (v) It is the general consensus of the Group that it would be of little value merely to divert available resources from basic development finance for the purpose of supplementary financing. The cost of a discretionary scheme cannot be estimated pending the preparation of a scheme.

A

The Conference,

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

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

I. Objective

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

II. Principles

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

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

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

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

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

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

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

NOTES

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

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

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

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

UNCTAD II: Resolution 30: Supplementary Financial Measures

1. The Conference reaffirms the objective of the proposal for Supplementary Financial Measures set out in Annex A.IV.18 to the Final Act of the first session of the Conference. This states that "the new scheme should aim to deal with problems arising from adverse movement in export proceeds which prove to be of a nature or duration which cannot adequately be dealt with by short-term balance-of-payments support. Its purpose should be to provide longer terms assistance to developing countries which would help them to avoid disruption of their development programmes".

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

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

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

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

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

6. The Conference decides:

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

7/27 To Mr. Friedman

OFFICE MEMORANDUM

*On the way questions
Please return
this memo when
you supply
the answers*

TO: Mr. Robert S. McNamara

DATE: September 26, 1969

FROM: Irving S. Friedman

ISF

SUBJECT: Supplementary Finance: Outline of Work

R. Friedman

Substance of the Decision taken by TDB

*What does the
Resolution say
1) what were the
conclusions
of the 166
2) what was decided
as to the
the Fed agrees
with the conclusions
did the US rep?*

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

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

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

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

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

*did the govt's
reaffirm (did they
first agree)
that a "scheme
be formulated
& administered
or did they
- the
R/S +
study
+ evaluate
each
scheme*

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

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

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

Framework Paper

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

Papers on Issues

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

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

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

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

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

(iii) The relationship with the Compensatory Financing Facility of the Fund: The main question relates to the different purposes that S.F. is intended to serve. The Compensatory Financing Facility helps to even out the availability of exchange earnings from exports for a member country and thus assists a country in meeting temporary, reversible, balance of payments deficits, on the understanding that the drawings would be repaid by the country within 3-5 years. The proposal for supplementary finance has been made because countries cannot undertake development programs with a longer-term perspective unless there is some assurance that their export earnings would correspond to reasonable expectations. In brief, it may be said that the Compensatory Financing Facility has to do with instability or short-term fluctuations in export earnings, and supplementary finance with uncertainty of export earnings. A closely related question is the continuing mechanism, if any, for consultation with the Fund in the implementation of any scheme.

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

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

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

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

Paper on Relationship with IDA Replenishment

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

which ones + what evidence

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

Time Schedule for further Steps

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

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

how did it emerge i.e. "fantasy"

Staff Arrangements

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

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

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

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

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

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

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

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

To: FILES
From: Federico Consolo *for*
Subject: Trade and Development Board - IXth Session
Item 6 - Growth, Development Financing and Aid

Geneva, September 17, 1969

SEP 24 1969

10 am

Attached is document TD/B/SR/218.

On page 2 is a statement by Dr. Lope z-Herrarte (Guatemala) on behalf of the Latin American group on "blending" of Bank Group loans and credits. This statement represents a compromise, a draft resolution not having received sufficient support from the group of 31 (LDC's in the Trade and Development Board).

On page 3 is the outcome of the inter-group discussions on the "Multilateral Interest Equalization Fund" draft resolution.

On PP 4/7 is the record of the discussions and voting on supplementary financing: the relevant resolution has already been circulated in the Bank.

Encls .

cc: Messrs. Demuth
Friedman ✓
Sarma

FC/mar

Distr.
RESTRICTED
15 September 1969
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TRADE AND DEVELOPMENT BOARD

Ninth Session

PROVISIONAL SUMMARY RECORD OF THE TWO HUNDRED AND EIGHTEENTH MEETING

held at the Palais des Nations, Geneva,
on Friday, 12 September 1969, at 6.10 p.m.

President: Mr. ASANTE (Ghana)
Rapporteur: Mr. DUNKEL (Switzerland)
Secretariat: Mr. PEREZ-GUERRERO, Secretary-General of UNCTAD
Mr. CHOSSUDOVSKY, Secretary of the Board

CONTENTS:

Growth, development financing and aid (agenda item 6) (continued)
Measures to inform world public opinion of the work of UNCTAD and of the problems of development: report by the Secretary-General of UNCTAD under Board resolution 52 (VIII), paragraph 3 (agenda item 17) (continued)
Impact of the regional economic groupings of the developed countries on international trade, including the trade of developing countries; draft resolution submitted to the Board by the second session of UNCTAD (agenda item 13) (continued)
Reports of the Special Committee on Preferences on its second and third sessions (Conference resolution 21 (II)) (agenda item 5) (continued)
Special measures in favour of the least developed among the developing countries (agenda item 15) (continued)
Transfer of technology, including know-how and patents; Board resolution 48 (VII) (agenda item 11) (continued)
Financial implications of the actions of the Board (agenda item 26) (continued)

N.B. Participants wishing to have corrections to this provisional summary record incorporated in the final summary record of the meeting are requested to submit them in writing, preferably on a copy of the record itself, to the Official Records Editing Section, United Nations Secretariat, Room 445, Palais des Nations, Geneva, within three working days of receiving the provisional record in their working language.

GROWTH, DEVELOPMENT FINANCING AND AID (agenda item 6) (TD/B/260, TD/B/236/Rev.1 and Rev.1/Corr.1, TD/B/270 and Add.1, TD/B/NGC/14, TD/B/L.183 and Add.1, TD/B/L.190) (continued)

Mr. HERRARTE (Guatemala), speaking on behalf of the Latin American Group, said that the terms and conditions on which development financing was currently being provided had considerably delayed the development of the developing countries. In view of the importance of agenda item 6, the countries of the Latin American Group would have liked to see the Board adopt a joint statement concerning that item. Since that had not proved possible, they wished to state that they had given serious consideration, during the present session of the Board, to the critical situation in the international capital markets which had resulted in an undue increase in interest rates that constituted a serious obstacle to external financing, particularly for infrastructure projects. The developing countries viewed that situation with dismay and alarm.

In the light of that disturbing situation and on the basis of Conference resolution 29 (II), the Latin American countries hoped that the Governors and Executive Directors of the International Bank for Reconstruction and Development (IBRD) and the International Development Agency (IDA) and their executive organs, taking into account the gravity of the situation, would reconsider the need to increase the volume of IDA loans and of joint IBRD/IDA credits, for the benefit of all the developing countries.

The representatives of the Latin American Group requested the Trade and Development Board to invite the Committee on Invisibles and Financing related to trade to give careful study to this problem and to place it, as a priority item, on the agenda for its next session.

(b) REPORT OF THE COMMITTEE ON INVISIBLES AND FINANCING RELATED TO TRADE ON ITS THIRD SESSION (TD/B/236/Rev.1)

The PRESIDENT said that the draft resolution on the flow of financial resources in annex II to the report of the Committee on Invisibles and Financing related to trade (TD/B/236/Rev.1) had been discussed by the President's Contact Group. In the light of that discussion, he proposed that the Board should adopt the following statement:

"It appeared that, although a number of developed countries stated that they had either attained the target or had taken concrete measures to attain the target, others were not in a position to modify their attitude towards this draft resolution. Developing countries expressed their disappointment that it was not possible to come to an agreement and reiterated the need to attain the targets set out in the New Delhi resolutions and in General Assembly resolution 2415 (XXIII). The Board decided to refer this matter in principle to its tenth session, but to discuss it at the second resumed ninth session, if possible."

Mr. FAESLER CARLISLE (Mexico) questioned the inclusion of the words "if possible" in the last sentence of the statement. His delegation understood it to have been agreed that the matter should be submitted to the second resumed ninth session for discussion. He believed its discussion at that session would be possible.

The PRESIDENT said that, while it was understood that the matter would be submitted for discussion at the second resumed ninth session, pressure of work might prevent its discussion at that time. It was for that reason that the words "if possible" had been included in the statement which he had read out.

The statement read out by the President was adopted.

The PRESIDENT said that another matter arising out of the report of the Committee on Invisibles and Financing related to Trade on its third session, was that of convening an intergovernmental group to consider the question of establishing a multilateral interest equalization fund. The President's Contact Group had discussed that question and had considered the relevant draft resolution (TD/B/L.183). In the light of that discussion, he proposed that the Board should adopt the following statement:

"The Board discussed briefly the draft resolution on a multilateral interest equalization fund. It was not possible to reach agreement on the matter of convening an intergovernmental group as suggested in the draft resolution. The Board therefore decided to refer the matter to the Committee on Invisibles and Financing related to Trade for further consideration at its fourth session."

It was so decided.

(a). SUPPLEMENTARY FINANCIAL MEASURES: REPORT OF THE INTER-GOVERNMENTAL GROUP ON SUPPLEMENTARY FINANCING (TD/B/260, TD/B/L190)

The PRESIDENT said that two draft resolutions on supplementary financial measures had been submitted. Their basic purpose appearing to be the same, the sponsors had agreed that the two proposals should be considered by a Contact Group with a view to the production of a joint text. That text was now before the Board in document TD/B/L190 and he recommended its adoption.

Mr. VIAUD (France) said that his delegation was unfortunately unable to support draft resolution TD/B/L190 because it could not accept the principle of any long-term system of compensation for fluctuations in export proceeds. In his delegation's view the real solution to the problem lay in a system of trade organization which would make possible the maintenance, to the benefit of the developing countries, of stable and remunerative prices. A supplementary financing scheme would not permit the direct action on prices which it considered desirable.

Moreover, paragraph 6(e) of Conference resolution 30 (II) directed the Trade and Development Board to study and take early action on the findings of the Inter-governmental Group, taking account of any proposals for action in the field of international commodity policy which might be submitted to the Board of Governors of IBRD and IMF. Neither the Board itself nor any of its subsidiary organs had examined the report of the Inter-governmental Group, or taken into account the proposals for action in the field of international commodity policy which were now being examined by IBRD and IMF. Despite his delegation's request for action at the meeting of the Board of Governors of the International Monetary Fund in Rio de Janeiro, the Trade and Development Board had not yet been informed of the results of the studies undertaken by IBRD and IMF. His delegation could not, therefore, support a decision on supplementary financial measures which would not be consistent with the resolution adopted at the second session of the Conference. It would therefore have to abstain in the vote on draft resolution TD/B/L190.

Mr. RYAN (Australia) said that his delegation supported draft resolution TD/B/L190 since it provided for the Board to remit the report of the Inter-governmental Group on Supplementary Financing to the competent organs of IBRD for consideration. His delegation wished again to place on record, however, the reservations which it had expressed at the time of the adoption of recommendation A.IV.18 of the first session of the Conference and decision 30 (II) of the second session of the Conference.

It was still not convinced that supplementary financial measures could provide a satisfactory solution to the problems created for the developing countries by inadequate export earnings. In that connexion, he would like the attention of IBRD to be drawn to the conclusion in paragraph 33 of the report of the Inter-governmental Group on Supplementary Financing (TD/B/260), which he was sorry to see was not mentioned in the annex to draft resolution TD/B/L190. It was regrettable that the draft resolution made no reference to the important part that arrangements to improve international trade in commodities could play in stabilizing the export earnings of developing countries. He hoped that IBRD, in considering supplementary financial measures, would also take fully into account the proposals now before the Governors of IBRD and IMF stemming from studies prepared by those institutions as a result of the decision taken at the meeting of the Board of Governors of the IMF in Rio de Janeiro in 1967. He requested that the views he had just expressed should be transmitted to the IBRD in accordance with operative paragraph (1) of draft resolution TD/B/L190.

Mr. FORTHOUME (Belgium) said that his delegation would have to abstain in the vote on draft resolution TD/B/L190 because it failed to bring out the complementarity of supplementary financial measures and price stabilization.

Mr. ABE (Japan) observed that operative paragraph 3 of draft resolution TD/B/L190 would not prevent IBRD from taking its own decision on the subject referred to in that paragraph. His delegation supported the draft resolution.

Mr. MUSOKE (Uganda), speaking on behalf of the Group of 31 developing countries members of the Board, thanked those of the developed countries which had found it possible to submit a draft resolution basically similar to the one submitted by the developing countries. No single solution existed to the problem of development and a large number of convergent measures must be adopted. While he appreciated the steps which were being taken to stabilize commodity prices and to safeguard the balance of payments positions of the developing countries, it was obvious that complementary measures were required in the form of supplementary financial arrangements. He had hoped that draft resolution TD/B/L190 might have been adopted unanimously, but, since that did not appear to be the case he expressed the hope that those countries which were now expressing reservations would see their way to participate in arrangements for supplementary finance when they were introduced.

Mr. MORIARTY (New Zealand) said that, in supporting the draft resolution, his delegation associated itself with the views which had been expressed by the Australian representative.

Mr. SOUTO MAIOR (Brazil) said that his delegation would vote in favour of the draft resolution before the Board. With reference to the last preambular paragraph, he agreed with the Conclusions of the Inter-governmental Group on Supplementary Financing and endorsed in particular paragraphs 22 and 33 of the latter's report (TD/B/260). His delegation was not sure to what extent an entirely discretionary scheme would be capable of achieving the purposes contemplated in recommendation A.IV.18 of the first Session of the Conference, and had some doubt as to whether such a scheme would provide reasonable assurance of help to the developing countries in the case of unexpected export shortfalls. He hoped, however, that those misgivings would not be confirmed. His delegation was keen to see as soon as possible the reports referred to in operative paragraph 2 of the draft resolution and looked forward to the effective implementation of operative paragraph 3.

Mr. VILLAR (Spain) said that his delegation supported draft resolution TD/B/L.190. However, that support did not imply rejection of other means of solving the difficulties created for developing countries by unexpected shortfalls in export earnings. On the contrary, Spain welcomed the ideas advanced by other delegations and hoped that, coupled with a scheme for supplementary financing, they would provide a satisfactory solution. He hoped that IBRD would be able to work out arrangements for supplementary financing. In doing so, however, it should pay special attention to the fourth preambular paragraph of the draft resolution, because invisibles would shortly represent an important source of income for developing countries.

Mr. LJUNGAHL (Sweden), speaking on behalf of the four Nordic countries, said that when Conference decision 30(II) had been adopted, those countries had expressed the hope that the Inter-governmental Group would be able within the established timetable to reach unanimous agreement not only on principles but also on a fully elaborated scheme for supplementary financing. Although those hopes had not been entirely realized, the Nordic countries had accepted the conclusions reached in the Inter-governmental Group. Adoption of draft resolution TD/B/L.190 would represent a milestone in the history of UNCTAD and an important step forward along the road to achievement of a scheme for supplementary financing.

Mr. SWAMINATHAN (India) said that his delegation supported the draft resolution. He drew attention to the fact that some delegations had referred to its subject at the time of the discussion of agenda item 4. Adoption of the draft resolution should be subject to the statements made at that time also.

Mr. BOHDANOWICZ (Poland), speaking on behalf of those socialist countries which had abstained in the vote on Conference decision 30 (II), said that the position of those countries with respect to that decision remained unchanged.

The PRESIDENT said that the substance of all the statements which had been made would be recorded in the Board's report in accordance with the normal practice. He had thought that, since only the text of draft resolution TD/B/L.160 had been discussed at the present meeting, the Board might adopt it subject to the statements made at the meeting. The Board could, of course, vote on the text.

Mr. VIAUD (France) suggested that, in view of the reservations which had been expressed, the draft resolution should be put to the vote.

At the request of the representative of Chile the vote was taken by roll-call. Belgium, having been drawn by lot by the President, was called upon to vote first.

In favour: Brazil, Canada, Chile, Colombia, Costa Rica, Denmark, Spain, United States of America, Finland, Ghana, Greece, Guatemala, India, Indonesia, Iraq, Iran, Italy, Jamaica, Japan, Madagascar, Malaysia, Mexico, Nigeria, New Zealand, Uganda, Pakistan, Netherlands, Peru, Philippines, Federal Republic of Germany, Romania, United Kingdom of Great Britain and Northern Ireland, Rwanda, Senegal, Sweden, Switzerland, Syria, Tunisia, Venezuela, Yugoslavia, Algeria, Australia, Austria.

Against: none

Abstaining: Belgium, Bulgaria, France, Hungary, Poland, Czechoslovakia, Union of Soviet Socialist Republics.

Draft resolution TD/B/L.160 was adopted by 43 votes to none, with 7 abstentions.

Mr. MARTINS (Austria), speaking in explanation of vote, said that his delegation had supported the resolution, which it regarded as a constructive result of the Board's work. In general, the terms of the resolution corresponded to Austria's approach to the question of supplementary financing. In so far as the provisions of operative paragraph 3 were concerned, however, his delegation shared the misgivings expressed by the delegation of Japan.

MEASURES TO INFORM WORLD PUBLIC OPINION OF THE WORK OF UNCTAD AND OF THE PROBLEMS OF DEVELOPMENT (agenda item 17) (TD/B/(IX)/SC.1/L.1-2) (continued)

The PRESIDENT said that draft resolutions TD/B(IX)/SC.1/L.1 and TD/B(IX)/SC.1/L.2 had been considered by a Contact Group. In view of the limited time at the disposal of the Group and the divergence of views of the sponsors of the two texts, the Contact Group had agreed to recommend to the Board that it remit the two draft resolutions to its second resumed ninth session.

Mr. SANTA CRUZ (Chile) expressed regret that the Board had been unable to reach agreement on such an important matter. It was very necessary to improve UNCTAD's public information activities because the organization's failure to take positive decisions was largely attributable to the fact that the general public, in both developed and developing countries, was unaware of its activities. He hoped that, before the Board's tenth session, the Secretary-General would have devised some method for improving UNCTAD's information activities.

The PRESIDENT, speaking in his personal capacity, supported the views expressed by the representative of Chile.

Mr. SEKULIC (Yugoslavia) said that his delegation also attached importance to the question and therefore supported the remarks of the Chilean representative. It was regrettable that the Board had been unable, at its present session, to adopt the draft resolution submitted by the developing countries (TD/B(IX)/SC.1/L.1).

The PRESIDENT proposed that the Board should remit the two draft resolutions to its second resumed ninth session for consideration.

It was so decided.

IMPACT OF THE REGIONAL ECONOMIC GROUPINGS OF THE DEVELOPED COUNTRIES ON INTERNATIONAL TRADE, INCLUDING THE TRADE OF DEVELOPING COUNTRIES: DRAFT RESOLUTION REMITTED TO THE BOARD BY THE SECOND SESSION OF UNCTAD (agenda item 13) (TD/B/253, TD/B/L.186, TD/B(IX)/Misc.4) (continued)

The PRESIDENT said that the Board had decided to refer to a Contact Group the draft recommendation (TD/B(IX)/Misc.4) remitted to it by the second session of UNCTAD. The Contact Group had been unable to reach agreement on a text acceptable to the Board as a whole. It seemed, therefore, that the Board had no option but to defer consideration of the recommendation and of draft resolution TD/B/L.186 until its tenth session.

Mr. HILL (Jamaica) said that in the Contact Group, agreement had almost been reached on the following three paragraphs:

"1. The Trade and Development Board appeals to the developed member countries belonging to regional economic groupings to take account, whatever their economic and social systems, of the interests of other and especially developing countries in adopting measures to form or extend such groupings or to put their co-operation into effect.

2. The Board requests the Secretary-General of UNCTAD to continue to keep under review the question of the impact of economic groupings of the developed countries on international trade and particularly on the trade of the developing countries, and, with this end in view, to prepare periodically reports and studies as may seem to him appropriate on the measures adopted by such groupings in the course of their formation, extension or in putting co-operation into effect.

3. The Board decides to continue the study of the impact of such measures on international trade in the light of the periodical reports and studies of the Secretary-General of UNCTAD, and having regard to paragraph 1 above, giving particular attention to the interests and practical problems arising for the trade of the developing countries."

The full text of those paragraphs, together with the text of draft resolutions TD/B/(IX)/Misc.4 and TD/B/L.186, should be made available to the Board at its tenth session.

Mr. LOUKANOV (Bulgaria) said that it had been agreed in the Contact Group that the texts of the paragraphs just read out by the Jamaican representative should be reproduced in extenso in the summary record of the meeting. His delegation supported that course of action.

It was regrettable that the Contact Group had been unable to reach agreement on a text acceptable to the Board as a whole. Bulgaria hoped, however, that it would soon be possible to reach agreement on the subject and therefore supported the proposal that the draft resolutions should be considered by the Board at its tenth session.

His delegation had noted the comments of the Acting Director of the Research Division (TD/B/SR.215, p.2) on its general statement on agenda item 13 (TD/B/SR.213, p.10). It nevertheless maintained the substance of its remarks concerning the exclusion of socialist countries from the secretariat study (TD/B/263). In making those comments, Bulgaria in no way wished to question the objectivity of the secretariat's study.

The PRESIDENT proposed that the draft resolutions should be referred to the Board at its tenth session. As had been agreed in the Contact Group, the text of the paragraphs read out by the Jamaican representative would be reproduced in extenso in the summary record of the meeting and reference to them would be made in the Board's report on its ninth session.

The proposal of the President was adopted.

REPORTS OF THE SPECIAL COMMITTEE ON PREFERENCES ON ITS SECOND AND THIRD SESSIONS
(CONFERENCE RESOLUTION 21(II)) (Agenda item 5) (TD/B/L.181 and Add.1, TD/B/L.192)
(continued)

Mr. PEREZ-GUERRERO (Secretary-General of UNCTAD) said that no objections to draft resolution TD/B/L.192 had been raised in the Contact Group of which he had been Chairman.

Mr. MUSOKE (Uganda), speaking on behalf of the Group of 31 developing countries' members of the Board, withdrew draft resolution TD/B/L.181.

The PRESIDENT suggested that the Board should adopt draft resolution TD/B/L.192.

It was so decided.

SPECIAL MEASURES IN FAVOUR OF THE LEAST DEVELOPED AMONG THE DEVELOPING COUNTRIES
(agenda item 15) (TD/B/248, TD/B/257/Add.1, TD/B/269, TD/B/188) (continued)

The PRESIDENT said that draft resolution TD/B/L.188 had been referred to a Contact Group for consideration. Owing to pressure of work, the Contact Group had been unable to devote sufficient time to study of that text and had therefore recommended to the Board that consideration of the draft resolution should be deferred until the first resumed ninth session. He suggested that the Board should so decide.

It was so decided.

Mr. PEREZ-GUERRERO (Secretary-General of UNCTAD) said that he took full responsibility for the report by the UNCTAD secretariat on identification of the least developed among the developed countries (TD/B.269). He had followed with great interest the debate on that important matter and had also taken note of the observations on and criticism of the report. The latter should be considered as a first attempt to tackle the problem. It was based on an approach which was only one of the possible methods and was not intended to give a rigid categorization of countries. The problem of identification should be considered within the broader context of the special measures to be recommended for the least developed among the developing countries.

Mr. BALESTRA di MOTTOLA (Costa Rica) thanked the Secretary-General for his frank statement in explanation of document TD/B/269. Although he appreciated the action taken by the secretariat to carry out the mandate entrusted to it by UNCTAD, he felt obliged to express his delegation's views on that document. Whenever the secretariat dealt with matters that had political implications, it was essential for it to adhere strictly to its mandate. The terms of Conference resolution 24 (II) were quite clear. The secretariat should establish appropriate criteria on the basis of which the Board would then select the requisite measures and standards. The document submitted to the Board did not propose but rather adopted a number of standards. The document was therefore unacceptable and his delegation believed that the secretariat should, in accordance with the provisions of resolution 24(II), submit to the Board appropriate proposals on standards to be adopted in connexion with the question of identification.

Mr. KHALLAF (Observer for the United Arab Republic), speaking at the invitation of the President, said that the Secretary-General's statement had confirmed his delegation in its belief that sincere co-operation existed between the secretariat and delegations. The secretariat had been requested to continue studies relative to the identification of the least developed countries. Instead, however, the secretariat had compiled a list of such countries and in so doing had omitted fourteen developing countries on the pretext that they were highly dependent on petroleum. What was needed was to identify the problems facing the developing countries and find measures for resolving them.

Mr. NAVAS de BRIGARD (Colombia) said that his delegation supported the views expressed by the Costa Rican representative.

Mr. CAPRILES RICO (Observer for Bolivia), speaking at the invitation of the President, thanked the Secretary-General for his statement. His delegation had previously drawn attention to the fact that document TD/B/269 went much further than the terms of the mandate given to the secretariat. In its view, the conclusions contained in that document were not in the spirit of Conference resolution 24(II).

The PRESIDENT assured members, on behalf of the Secretary-General, that all the statements made in the course of the discussion would be borne in mind by the secretariat.

In the absence of further comment, he took it that the Board decided to postpone consideration of draft resolution TD/B/L. 188 until the first resumed ninth session.

It was so decided.

TRANSFER OF TECHNOLOGY, INCLUDING KNOW-HOW AND PATENTS: BOARD RESOLUTION 48(VII) (Agenda item 11) (TD/B/265, TD/B/L.179, TD/B/L.193) (continued)

The PRESIDENT read out the English text of draft resolution TD/B/L.193, submitted by the Secretary-General in his capacity of Chairman of the Contact Group. The texts in the other languages not yet having been circulated, he hoped that delegations could agree to consider only the English version.

Mr. VIAUD (France) said that his delegation would have no objection if the text of the draft resolution was simply interpreted into the other languages. He stressed, however, that that should not establish a precedent.

Mr. VALLAURE (Spain) and Mr. HOOTON (Canada) supported the French representative's remarks.

The PRESIDENT thanked all the non-English-speaking delegations for their co-operation.

In the absence of objection, he took it that the Board decided to adopt draft resolution TD/B/L.193.

It was so decided.

FINANCIAL IMPLICATIONS OF THE ACTIONS OF THE BOARD (Agenda item 26) (TD/B/266) (TD/B/L.181 and Add.1)

Mr. GROBY (Chief, Office of Administration, UNCTAD) said that only the decision contained in the resolution in document TD/B/L.181 on agenda item 5 had financial implications. In that connexion he drew attention to document TD/B/L.181/Add.1. The resolution called for the continuation in existence of the Special Committee on Preferences and for a fourth session of that Committee to be held either in 1969 or 1970, to be followed by a special session of the Board in 1970. If the Committee's session was held in 1969, the additional cost of \$55,000 could be absorbed within the existing appropriations. If it was held in 1970, together with a special session of the Board, the total cost would be \$55,000 for the fourth session of the Committee and \$30,000 for the special session of the Board. In that event, supplementary appropriations would be necessary.

Mr. BRODIE (United States of America) asked what savings could be effected by dispensing with the production of provisional versions of the summary records of meetings.

Mr. GROBY (Chief, Office of Administration, UNCTAD) said that it was difficult at present to estimate what the savings might be. The question would be studied and he would report to the Board at a later stage.

Mr. VIAUD (France) asked whether the decision taken by the Board to draw up a provisional agenda for the Intergovernmental Group on Trade Expansion, Economic Co-operation and Regional Integration among Developing Countries would have financial implications. The Group would presumably meet in the course of 1970 and he wondered whether the cost of that meeting had already been provided for in the existing appropriations.

Mr. GROBY (Chief, Office of Administration, UNCTAD) said that an answer to that question could not be given immediately, but would be provided at a later stage.

The meeting rose at 8.40 p.m.

SEP 17 1969

INCOMING CABLE

DATE AND TIME
OF CABLE:

SEPTEMBER 12, 1969 1927

LOG NO.:

WU TELEX / 13

TO:

MCMNAMARA INTBAFRAD

FROM:

GENEVA VIA UN NEW YORK

ROUTING

ACTION COPY:	MR. DEMUTH
INFORMATION COPY:	MR. MCMNAMARA
DECODED BY:	

TEXT:

HAVE GREAT PLEASURE IN INFORMING YOU THAT TRADE AND DEVELOPMENT BOARD, TODAY ADOPTED FOLLOWING RESOLUTION "THE TRADE AND DEVELOPMENT BOARD, RECALLING DECISION 30(II) OF THE SECOND CONFERENCE ON SUPPLEMENTARY FINANCIAL MEASURES, TAKING NOTE OF THE REPORT OF THE INTERGOVERNMENTAL GROUP ON SUPPLEMENTARY FINANCING ON ITS FIFTH SESSION (TD/B/260), REAFFIRMING THE OBJECTIVE SET OUT IN RECOMMENDATION A.IV.18 OF THE FIRST CONFERENCE AND THE OBJECTIVE LAID DOWN IN DECISION 30(II) OF THE SECOND CONFERENCE, RECOGNIZING THAT DISRUPTION TO DEVELOPMENT PROGRAMMES CAN ARISE FROM ADVERSE MOVEMENTS IN EXPORT PROCEEDS (INCLUDING, IN APPROPRIATE CASES, INVISIBLE EXPORTS) WHICH PROVE TO BE OF A NATURE OR DURATION WHICH CANNOT ADEQUATELY BE DEALT WITH BY SHORTTERM BALANCE OF PAYMENTS SUPPORT, AGREEING WITH THE CONCLUSIONS OF THE INTERGOVERNMENTAL GROUP HERETO ANNEXED (ANNEX A), PARA ONE INVITES THE COMPETENT ORGANS OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT, ON THE BASIS OF THE CONCLUSIONS OF THE INTERGOVERNMENTAL GROUP AND OF THE VIEWS EXPRESSED AT THE NINTH SESSION OF THE TRADE AND DEVELOPMENT BOARD, TAKING INTO CONSIDERATION THE SPECIAL NEEDS OF THE LEAST DEVELOPED COUNTRIES AS CONTAINED IN RESOLUTION 24(II) OF THE SECOND CONFERENCE, TO CONSIDER WORKING OUT ARRANGEMENTS FOR SUPPLEMENTARY FINANCE AND, IF APPROPRIATE, TO CONSIDER INTRODUCING THEM. PARA TWO INVITES FURTHER THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT TO MAKE AVAILABLE FROM TIME TO TIME TO THE TRADE AND DEVELOPMENT BOARD THROUGH

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I N C O M I N G C A B L E

DATE AND TIME
OF CABLE:

SEPTEMBER 12, 1969

1927

LOG NO.:

WU TELEX/13

TO:

MCMNAMARA INTBAFRAD

FROM:

GENEVA VIA UN NEW YORK

R O U T I N G

ACTION COPY:

MR. DEMUTH

INFORMATION
COPY:

MR. MCMNAMARA

DECODED BY:

TEXT:

PAGE 2

THE SECRETARY GENERAL OF UNCTAD REPORTS ON THE EXTENT OF THE PROGRESS MADE ON THE SUBJECT MATTER REFERRED TO IN THE PRECEDING PARAGRAPH. PARA THREE INVITES THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT WHEN CONSIDERING ARRANGEMENTS FOR DISCRETIONARY SUPPLEMENTARY FINANCIAL MEASURES ON THE BASIS OF THE CONCLUSIONS OF THE INTERGOVERNMENTAL GROUP TO GIVE ATTENTION TO PARAGRAPH (IV) OF THOSE CONCLUSIONS. PARA ANNEX A PARA (I) ARRANGEMENTS FOR SUPPLEMENTARY FINANCE CAN BE DESIGNED TO HELP MEET THE PROBLEM OF DISRUPTION OF DEVELOPMENT ARISING FROM ADVERSE MOVEMENTS IN THE EXPORT PROCEEDS OF DEVELOPING COUNTRIES. PARA (II) SUPPLEMENTARY FINANCIAL MEASURES SHOULD BE ADMINISTERED WITHIN THE WORLD BANK GROUP IN CONSULTATION WITH THE INTERNATIONAL MONETARY FUND. PARA (III) IN THE OPERATION OF ANY SUPPLEMENTARY FINANCIAL MEASURES DISCRETION SHOULD BE LEFT TO THE AGENCY SO AS TO ENSURE THE BEST POSSIBLE ADAPTATION TO THE MERITS AND NEEDS OF EACH CASE IN MEETING THE OBJECTIVES EXPRESSED IN PARAGRAPH TWO OF DECISION 30(II). IT CAN BE EXPECTED THAT ON THE BASIS OF THE EXPERIENCE GAINED IN THE OPERATION OF SUPPLEMENTARY FINANCIAL MEASURES APPROPRIATE OBJECTIVE CRITERIA WILL BE DEVELOPED SO AS TO PROVIDE REASONABLE ASSURANCE OF HELP TO PROTECT A COUNTRY'S DEVELOPMENT PLAN OR PROGRAMME AGAINST THE EFFECTS OF EXPORT SHORTFALLS. THE AGENCY WOULD TAKE INTO ACCOUNT THE DEVELOPMENT PLAN, INCLUDING ITS TARGETS, AND ALL

INCOMING CABLE

DATE AND TIME
OF CABLE:

SEPTEMBER 12, 1969

1927

LOG NO.:

WU TELEX/13

TO:

MCNAMARA INTRAFRAD

FROM:

GENEVA VIA UH NEW YORK

ROUTING

ACTION COPY:

MR. DEMUTH

INFORMATION
COPY:

MR. MCNAMARA

DECODED BY:

TEXT:

PAGE 3

INFORMATION RELEVANT TO THE OBJECTIVES OF SUPPLEMENTARY FINANCIAL MEASURES. PARA (IV) ANY UNDERSTANDINGS INVOLVED IN THE OPERATION OF SUPPLEMENTARY FINANCIAL MEASURES SHOULD BE NO DIFFERENT IN CHARACTER FROM THOSE WHICH NOW ARISE IN THE RELATIONSHIPS BETWEEN THE BANK AND MEMBER COUNTRIES. PARA (V) IT IS THE GENERAL CONSENSUS OF THE GROUP THAT IT WOULD BE OF LITTLE VALUE MERELY TO INVERT AVAILABLE RESOURCES FROM BASIC DEVELOPMENT FINANCE FOR THE PURPOSE OF SUPPLEMENTARY FINANCING. THE COST OF A DISCRETIONARY SCHEME CANNOT BE ESTIMATED PENDING THE PREPARATION OF A SCHEME." I AM SURE YOU WILL AGREE THAT THIS RESOLUTION, WHICH WAS ADOPTED WITH THE CONCURRENCE NOT ONLY OF ALL DEVELOPING COUNTRIES BUT ALSO OF VIRTUALLY ALL THE PART ONE IDA COUNTRIES, REPRESENTS AN IMPORTANT STEP FORWARD. I HAVE EVERY CONFIDENCE THAT THE WORLD BANK WILL NOT FEEL ABLE TO GO AHEAD IN SEEKING AN EFFECTIVE SOLUTION TO THE MOST IMPORTANT PROBLEM OF SUPPLEMENTARY FINANCE. I LOOK FORWARD TO AN EARLY OPPORTUNITY OF DISCUSSING THIS WITH YOU.

PEREZ GUERRERO

SECRETARY GENERAL UNCTAD GENEVA

MPB

Mr. Friedman

A/221.

INCOMING CABLE

SEP 17 1969

DATE AND TIME OF CABLE: SEPTEMBER 12, 1969 1927

LOG NO.: WU TELEX / 13

TO: MCNAMARA INTBAFRAD

FROM: GENEVA VIA UN NEW YORK

ROUTING	
ACTION COPY:	MR. DEMUTH
INFORMATION COPY:	MR. MCNAMARA
DECODED BY:	

TEXT: CORRECTION

THIRD LINE FROM END OF TEXT SHOULD READ:

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

PEREZ GUERRERO

SECRETARY GENERAL UNCTAD GENEVA

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Mr. Friedman

FORM NO. 20
11-69

INTERNATIONAL TELECOMMUNICATIONS CORPORATION
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INTERNATIONAL TELECOMMUNICATIONS CORPORATION

SEP 17 1969

INCOMING CABLE

DATE AND TIME OF CABLE	LOG NO.	TO	FROM	TEXT
SEPTEMBER 22, 1969	BU 2121 \ 13	KONAKAWA NIPPONBAI	DEPT. VIA NY NEW YORK	

ROUTING	ACTION COPY	INFORMATION COPY	RECEIVED BY
	MR. DEWITT	MR. KONAKAWA	

CONCLUSION

THE LINE FROM END OF TEXT SHOULD READ:
 THAT THE WORLD BANK WILL NOW BE ABLE TO GO AHEAD IN SEEKING AN EFFECTIVE
 SOLUTION TO THE MOST URGENT PROBLEM OF SUPPLEMENTARY FINANCING. I LOOK
 FORWARD TO AN EARLY OPPORTUNITY OF DISCUSSING THIS WITH YOU.

TYPED

SEP 17 9 47 AM 1969
 GENERAL FILES
 COMMUNICATIONS

SECRETARY GENERAL
 BANK OF AMERICA



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Cable Address - INTBAFRAD



INTERNATIONAL DEVELOPMENT ASSOCIATION

Cable Address - INDEVAS

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

Area Code 202 • Telephone - EXecutive 3-6360

Geneva, 3 September 1969

SEP 9 1969

3.30 p.m.

Dear Mr. Friedman,

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

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

Kind regards.

Sincerely,

N. A. Sarma

N. A. Sarma

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



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Cable Address - INTBAFRAD

INTERNATIONAL DEVELOPMENT ASSOCIATION

Cable Address - INDEVAS



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

Area Code 202 • Telephone - Executive 3 6360

Geneva, 3 September 1969

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

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

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

Brazil

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

Uganda (spokesman for the Group of 77)

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

Australia

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

Yugoslavia

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

Indonesia

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

Chile

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

Philippines

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

Switzerland

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

New Zealand

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

Denmark (on behalf of all Nordic countries)

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

United Kingdom

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

Netherlands

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

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

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

Guatemala

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

United States of America

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

Mexico

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

Venezuela

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

India

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

United Arab Republic

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

OFFICE MEMORANDUM

SEP 4 1969

9.15 a.m.

TO: Mr. Robert S. McNamara

DATE: September 3, 1969

FROM: Andrew M. Kamarck *amb*

SUBJECT: Trade and Development Board Meeting: Supplementary Financing

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

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

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

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

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

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

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

cc: President's Council