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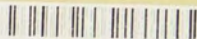
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Irving Friedman UNCTAD Files: New Delhi Meeting, February 1 - March 25, 1968 -
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Possible compromise on Supplementary Financial Measures

1. The Conference expresses appreciation of the report prepared by the staff of the IBRD and of the report of the IGG and notes that the majority of the members of the Inter-governmental Group believe that, although a number of questions - some of them important - require further consideration, the objective set out in Part A of Recommendation A.IV.18 can be achieved by a Scheme with the essential characteristics of the Bank Staff Scheme.

2. The report of the Bank staff and the Inter-governmental Group have defined the issues involved and clarified many of them. The Conference agrees that further work is required to resolve some outstanding issues. The Conference also agrees that further consideration of supplementary measures should be guided by the following

[principles]:-

(i) there is a clear, urgent need to provide [a scheme of] supplementary financing to developing countries which have suffered unforeseen shortfalls from reasonable expectations in their export proceeds of a nature or duration which may disrupt their development programmes. [The scheme of] supplementary financing should be administered by an Agency within the World Bank family.

(ii) It is essential that supplementary financing should, on the basis of appropriate criteria, provide reasonable assurance of timely assistance to prevent or minimize disruption of development plans and programmes which might result from such export shortfalls to the extent that they cannot be met by other measures.

(iii) In establishing reasonable expectations, account should be taken of the levels of export proceeds foreseen in the development plan or programme of countries applying for supplementary financial assistance and required for its implementation.

[In the case of countries having comprehensive development plans involving the taking in advance of a view of export expectations, the agency administering the Scheme and the country should agree at the beginning of each plan period on the level of exports that may be

/reasonably

reasonably expected during that period, on the basis of export projection and informed judgement and on which the scope of the plan is based. Countries not having comprehensive plans involving such export expectations could claim under the Scheme on the basis of a disruption of investment programmes caused by a decline in exports.]

(iv) A shortfall from these expectations should be the first element to be taken into account in assessing claims to supplementary financial assistance.

[A shortfall from the pre-agreed level of exports as established under (iii) above should form the basis of a prima facie claim to supplementary financial assistance under the Scheme.]

(v) There should be a policy understanding between the country and the Agency relating to the development plan or programme and its implementation. It should not impair the sovereignty of any member country.

(vi) There should be provision for the use of other resources in a prudent measure by countries applying for assistance under the Scheme.

(vii) There should be a clearly limited financial commitment of an adequate amount by donor countries.

3. Within the principles set forth in paragraph 2 above, the following principal issues remain to be discussed:-

(i) The consideration to be taken into account by the Agency in assessing the extent of disruption requiring supplementary financial assistance

(ii) The scope and nature of the understanding between the Administering Agency and the individual participant countries on their own development plans and programmes and the policies to be adopted in order to carry them out.

(iii) The nature of the relationship between supplementary financing and compensatory financing.

[(iv) The techniques to be used in establishing reasonable expectations.]

4. In considering the issues outlined in paragraph 3 measures compatible with the principles in paragraph 2 and clearly responsive to the purpose set forth in paragraph 2(i) above, including those suggested to the I.G.G. should receive due attention.

5. Account should be taken of the studies, and whatever recommendations may be contained therein, in the field of international commodity policy requested by the Board of Governors of the IBRD and the IMF at their annual meetings in 1967 as and when they become available.

6. The Conference decides -

(i) to continue in existence the Inter-governmental Group for the purpose of working out supplementary financing along the lines envisaged in paragraphs 1 to 5 above;

(ii) to authorize the Inter-governmental Group to work out a draft outline of these measures, and proposals for their financing, if possible in time for submission to the 7th meeting of the Trade and Development Board but no later than December 31st, 1969

to authorize the Inter-governmental Group to negotiate and decide on the features of the machinery for Supplementary Financing including Draft Statute and proposals for the financing of that machinery in time for it to be submitted to the 7th meeting of the Trade and Development Board.

Note by the Indian Delegation on the
Supplementary Financial Measures.

Introduction.

The proposal for a scheme of Supplementary Financial Measures, which was made at the First UNCTAD, has faced some difficulties in the past four years. Perhaps, some of the difficulties experienced by some developed countries in appreciating the purpose of the proposal arise from the fact that it is addressed to a rather special problem of developing countries, which is a nonetheless very real problem, if not so obvious.

The Problem of Plan Disruption
through Export shortfalls:

2. What the proposed S.F.M. Scheme is designed to tackle is not merely the instability which characterises the export earnings of developing countries. Its object is to tackle a somewhat complex problem with its roots in this instability. First, there has to be an unforeseen shortfall in export earnings from an expected level; secondly, it has to be of a persistent character such that it cannot be dealt with adequately by short-term balance of payments assistance; finally, it must be of such a magnitude as to threaten to disrupt the development programme of the exporting country. All these are integral features of the problem which SFM is designed to tackle.

3. While it is not difficult to see how a shortfall in export earnings from reasonable expectations can occur, nor how it can arise from unforeseen circumstances, perhaps its disruptive effects on a developmental programme call for some explanation.

4. In the estimation of the foreign exchange resources required for a development programme, the contribution of exports has to be assigned a definite value. The total earnings from exports as well as from other sources such as foreign aid, invisible receipts, private capital inflow, and sometimes even drawings on a country's surplus reserves constitute the wherewithal for financing a development programme. It follows that, if the total estimated resources fail fully to materialise, there would have to be a curtailment pro tanto of the import programme. Now, in every development programme, there is normally some room for marginal adjustments. However, when the required curtailment in imports assumes

a large proportion, it calls for a rather drastic adjustment in the development programme which could amount to its disruption. If the totality of the foreign exchange expenditure, which is mainly on imports, is to remain unimpaired, the totality of the estimated foreign exchange resources, must accrue as planned, though not necessarily sourcewise. If the earnings from exports fail to come up to estimated levels, then, unless the shortfall is made good, there is a danger of disruption of the development plan.

Possible Sources of Financing:

(a) Basic Development Finance:

5. How about ^{other} sources of finance? Can they be depended upon to make good an unforeseen shortfall in exports? There is neither an automatic mechanism nor a practical likelihood that basic developmental finance could be increased so as to make good such a shortfall. Recent experience of the flows of development finance, does not encourage such an optimistic view.

(b) International Liquidity:

6. Another source is international liquidity such as reserves or drawings on IMF. However, these are both basically shortterm. Secondly, drawings on IMF get progressively more and more conditional. Further, if the export shortfall is persistent, it cannot be dealt with at all by the use of international liquidity drawings which have to be repaid or reconstituted in a short time.

(c) Compensatory Financing Facility:

7. A further possibility is the use of the Compensatory Financing Facility of the International Monetary Fund. The Inter-governmental Group on Supplementary Financing has had rather intensive discussions on the question of the relationship between CFF and SFM. Although, the notion that the former is shortterm and the latter is longterm seems to die hard, the differences between the two concepts are deeper and perhaps somewhat more subtle. CFF essentially is a statistical concept. Its aim is to smooth out negative deviations from the medium term trend of exports. On the other hand, the negative deviations which would be financed under SFM would not necessarily be from an extrapolation of the medium-term trend of exports, but would instead be from projections of reasonable expectations. Since reasonable expectations could be based not merely on the past trends but also

on such factors as the likely influence of new policies or developments which are expected to occur, their projections could easily and abruptly break away from the past trends. In that event, in a given situation, there could be a shortfall from the SFM trend but none from the CFF trend or vice-versa, and, in any case, the magnitudes of the shortfalls could be completely different in the two cases. Secondly, even if a drawing is made under CFF, it will still be essentially shortterm and its repayment would be unrelated to the recovery of exports. Even if a re-financing facility for drawings under CFF is introduced, it would still not serve the purpose for reasons which have been indicated earlier. Furthermore, inasmuch as CFF assistance is computed on the basis of a moving average, in the case of a persistent shortfall, notwithstanding a restoration ~~pro tanto~~ pro tanto of the facility after a repayment, the successive drawings would be progressively smaller. One has, therefore, to conclude that the problem of the disruption of a development programme because of unforeseen and persistent shortfalls in exports is a real one and a serious one and there is no method or means of dealing with it adequately in the present institutional or policy framework for international financing. Hence, the need for a Scheme of Supplementary Financing.

Commodity Arrangements:

8. Of course, inasmuch as prevention is always better than cure, any arrangements for the stabilisation of commodity prices ~~or~~ or markets that may be devised would tend to prevent the export shortfalls from occurring or diminish their magnitude. There is, therefore, no logical incompatibility between the SFM Scheme and commodity stabilisation or marketing arrangements. On the contrary, they are complementary to each other in the sense that SFM would then cover only that kind or part of shortfall which would occur due to causes outside the scope of commodity arrangements.

9. This does not mean that the shortfalls would then be confined to the exports of manufactures and semi-manufactures. They could occur even in respect of (a) the exports of commodities which are not covered by commodity arrangements, or, (b) in respect of the exports of commodities which are covered but to markets which are not covered; or, (c) where

the value of the exports implied in the reasonable expectations is larger than that assured by marketing arrangements; or (d) where the market organization covers only the price but not the volume or (e) vice versa; or (f) where the reasonable expectations of exports have a positive or a higher rate of growth, while the rate of growth of the assured offtake is either zero or lower than that implied in the reasonable expectations. Finally, (g) the best of commodity arrangements that human ingenuity can devise could only avoid the variations in export earnings stemming from changes in demand but not those arising from changes in supply. In any event, with the best possible commodity marketing arrangements, it is hardly possible totally to eliminate the element of uncertainty which plays such a large role in economic affairs as well as human affairs in general.

10. This is briefly the logical case for a Scheme of Supplementary Financial Measures. The Committee on Invisibles and Financing Related to Trade had examined it and referred it for further and detailed examination in depth to an Intergovernmental Group, the results of whose deliberations are before this Committee. While all the developing countries and some developed countries, members of the Group, have supported the Scheme, the report of the Intergovernmental Group contains some unresolved questions which, in the view of the Indian delegation, certainly admit of practical solutions.

Unresolved Issues:

(a) Export Projections for five years.

11. The first of these unresolved issues is the question of the feasibility of making export projections for 5 years ahead. This is a technical question about the techniques of medium term forecasting. It is not proposed in this paper to deal with this question beyond emphasizing that the advances of the past twenty years in the science of economic forecasting have made it possible to attempt forecasts for five years with a fairly limited margin of error. No doubt, forecasts do often go astray. But, then this feature is not restricted to medium-term or long-term forecasts only but can apply just as well to short-term forecasts. In any case, it is not, as if export-forecasts for 5 years ahead will be made only for the SFM Scheme. Almost all developing countries have development plans of 5 years and willy-nilly, they have to put a value to exports for 5 years ahead as the

formulation of a five-year development plan necessarily requires, as best as one can make it an estimation of all the major macro-economic variables including exports. Admittedly, exports are more subject to the fitful vagaries of external factors such as foreign demand, external competition, restrictive import policies of other countries and so on. Nevertheless, one has to and one does make estimates of exports as one does of imports, investment, savings, consumption, production and so on, although all of them are liable to go wrong in some measure. Although, the IBRD staff report on this subject is fairly comprehensive, perhaps, UNCTAD Secretariat could be requested to attempt a comparative study of alternative techniques of medium-term export forecasting with a view to discovering the technique which is most suitable for the purpose of SFM export projections.

~~(a)~~ (b) Midterm review and revision of export projections:

12. Secondly, the question has been raised in the Inter-governmental Group's discussions of the need and advisability of a midterm review or revision of the agreed projections. It is felt that a midterm revision would be logically inconsistent with the purpose of the scheme and in the absence of the intention of a revision, a review would scarcely be meaningful. The central purpose of SFM is to maintain unimpaired the value of the export earnings as estimated at the beginning of a plan period in order to prevent a disruption of the plan. Of course, the implied undertaking to maintain intact the total export earnings as estimated is not just unilateral, but conditional upon the pursuit of appropriate policies, which would ensure that any export shortfall which may occur despite it would naturally be presumed to have been due to external factors beyond the policy control of the country concerned. In that case, it would need and SFM would provide the necessary financing. This great facility which could prevent a disruption of a development plan, would be rendered fairly ineffective, if there were to be a midterm revision of the export projections. Under what type of circumstances would there be a need for a midterm revision? When a foreign country imposes restrictions on ~~exported~~ imports? When suddenly a synthetic product captures the market for a natural product which, therefore, becomes obsolete? These are, in fact, among the very contingencies against which a country's exports have to be secured by SFM. If under these circumstances, the SFM Agency is to throw up arms and disown responsibility, such an institution cannot be expected

to enjoy the trust of developing countries. It is difficult, therefore, to support a proposal for providing for the renegotiation of a contract, which would outrage its sanctity, remove from the Scheme the virtual assurance of export earnings to countries following agreed policies, and thus impair its appeal to them as well as the logical basis of the Scheme.

(c) Coverage of the Scheme.

13. Another question of some importance is that of broadening the scope of the Scheme to cover unforeseen increases in import expenditures. There is no logical reason to exclude this type of contingency, which is, often as unforeseen as export shortfalls, stems as much from the same causes and is no less unsettling in its effects on the integrity of development plans.

(d) Policy Understanding.

The question of policy understanding is, by means, as intractable as it appears at first sight. A broad measure of agreement has already been reached in the Intergovernmental Group that the general policy understanding covering SFM should not exceed the preexisting one governing the provision of basic developmental finance and should preferably be expressed in terms of targets for a few major macro-economic variables. The Indian Delegation would strongly support this position and urge the Committee to resolve the question in this manner. For, the general understanding covering the provision of basic development finance is almost always very comprehensive. Therefore, no good purpose would be served by repeating it. On the other hand, while one must attach the highest importance to a prudent use of the Agency's resources for the most deserving purposes, it would clearly be inadvisable to extend the policy understanding to a point which leads to diminishing returns in terms of cooperation. One must be careful about not devising solutions to our problems which create more problems.

(c) Resource Requirements.

15. There is also the all-important question of resources for the Scheme. The IBRD staff had suggested that initially, \$300-400 mn. per year would be enough to meet the requirements of the Scheme. The ~~IBRD~~ IBRD staff explained the methodology of making those estimates in its report and further valuable clarifications were provided by the representative of IBRD to the Inter-Governmental Group. There have, however, been some misgivings in the minds of some delegates about the

estimates and, in fact, some of them have viewed the Scheme with alarm as an open-ended commitment. The Indian Delegation does not share these misgivings, but it entirely accepts the suggestion, which has been made in the Inter-Governmental Group, that it should be a fixed fund of \$300-400 mn. per year for the first 5 years and there should be recourse to some form of rationing, if in fact the estimate proves to be an underestimate. This proposal effectively settles the vexed question of resources.

16. It should be emphasized that support to this Scheme should not be interpreted to mean that this method of giving aid is preferred to the normal mode of providing basic developmental finance. By its very logic, Supplementary Financing ought to supplement basic development finance and not substitute for it. It is not a question of alternatives but of logical sequence.

A question of priorities.

17. It has sometimes been argued that as long as there is no guarantee of basic development finance, the establishment of a Supplementary Financing Scheme is not likely to serve any valuable purpose. Without detracting from the crucial importance of basic development finance, it may be pointed out that this argument fails to take into account the actual relative magnitudes of the variables in question. It is well known that, by and large, export earnings still constitute the bulk of the external resources required for financing the development plans of developing countries and it is only the gap between these earnings and the total import requirements that is not met by basic development finance. It, therefore, follows that the SFM is designed to plug the leaks in the larger and very important source of external finance for development. Further, adoption of SFM would have to be without prejudice to any other steps that may be taken to insure an adequate supply of external resources for development.

Effectiveness of SFM

18. It has sometimes been argued that SFM would deal with the symptom rather than the disease and in the process would prevent the treatment of the disease itself. It has been suggested that a lasting method of avoiding export shortfalls is to devise international commodity arrangements which would stabilise the earnings of developing countries from the

exports of primary commodities. It has also been suggested that by giving external assistance for shortfalls in exports, SFM would prevent or delay structural adjustments which are the only ultimate solution of the problem. It should be pointed out here that, if there is a persistent shortfall in the exports of a particular commodity during a given plan period, there is nothing in SFM to suggest that the assistance received under the Scheme would perpetuate the existing pattern of exports. Indeed, it is possible to bring about the required adjustments in the production pattern with the assistance to be received from SFM and common sense suggests that this would, in fact, be done, for the simple reason that in the next plan period the Agency will refuse to accept anything but estimates of lower export earnings from the commodity concerned. Obviously, the assistance to be received by an individual country from SFM, the total amount of which is not expected to exceed \$400 mn. per year, would be too small to create a temptation to continue with a wrong production pattern which is not warranted by changing international demand conditions. Secondly, it is difficult to accept that the setting up of international commodity arrangements would prove to be the ultimate solution of the problem of instability of export earnings. As has been observed in the Secretariat Document TD/II/C.3/2 "In the final analysis, the basic long-term solution to the problems of sluggish growth, instability and uncertainty of commodity exports may be found in a progressive diversification of the structure of production and exports in developing countries". It is, therefore, appropriate to conclude that by providing a respite to a developing country in the event of an export shortfall and enabling it to maintain the integrity of its development plan, the so-called shortterm solution of SFM would really create conditions for the adoption of the longterm solution of the problem which consists in the appropriate structural diversification of production and exports.

19. This leads ~~ix~~ us to our next and last point. The need to raise the flow of developmental assistance significantly can hardly be over-emphasised. The provision of basic development finance on an adequate scale must first be attended to. This would naturally include replenishment of IDA and some other matters. However, the fact that these matters are under consideration should not interfere with our taking a decision on the Supplementary Financing Scheme. Nor should the passing payments

difficulties of some of the leading donor countries be allowed to dilute or distort the Scheme. This plea is prompted by the very important consideration that short-term difficulties should not be allowed to colour and such less to distort decisions which have a longer-term effect. This has the valuable support of the report of the distinguished Secretary-General of UNCTAD, Dr. Prebisch (TD/3) entitled "Towards A Global Strategy of Development", which says "First and foremost, the replenishment of the International Development Association must be completed, but this does not by any means prevent the supplementary financing mechanism from being approved in principle without the need actually to contribute resources before 1970, because consideration of the technical details not yet disposed of and negotiation of the text of an agreement and its ratification by Governments will take time".

20. This Second Session of the UNCTAD will have done a useful service to the cause of the development of less developed countries if a concrete agreement on the need for and on the nature and scope of the Scheme of Supplementary Financing is reached at least in principle and further processing of the proposal is expedited.

HEADQUARTERS:
WASHINGTON D. C. 20433

Mr. Warrick - 272

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CABLE ADDRESS-INTBAFRAD

INTERNATIONAL DEVELOPMENT ASSOCIATION

CABLE ADDRESS-INDEVAS



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Mrs. Baker 6/1903
W. Baker 30152
Baker
William
(p.c.)

c/o Ashoka Hotel, New Delhi

March 14, 1968

Dear Irving:

Welcome to Delhi.

As you will probably be tired after your trip, I shall not disturb you in your hotel room this morning.

I hope Mrs. Friedman has accompanied you as Eva is here, and we would be very happy to see you both soon. We are in Suite 653.

For your information, both Sarma and Jalan are at Claridges (619411) Room Nos. 209 and 240, respectively. De Fontenay is at the Ashoka.

Friday is a holiday in India and the Conference is not meeting. There will be meetings on Saturday and, probably, Sunday.

I thought you might wish to meet with Prebisch who is out of town today. I had dinner with him the day before yesterday and told him about your arrival. He has invited you and me for lunch on Monday, March 18. I took the liberty of accepting on your behalf. The lunch will be at the Oberoi at 1.15 p.m.

I enclose your pass for the Vigyan Bhavan.

Looking forward to seeing you soon.

Sincerely yours,

Arthur
Arthur Karasz

Mr. Irving S. Friedman
The Economic Advisor to the President
c/o Ashoka Hotel
New Delhi

M. Vayl

7973
Home Del.

INTZANTRAD
NEW DELHI

FEBRUARY 21 1968

LT

INDIA

NO.13 FOR KARASE AND SARMA

IDA REPLENISHMENT EXPECTED TO BE CONSIDERED BY EXECUTIVE DIRECTORS
DURING EARLY MARCH (STOP) WOODS ^{WISHES} BELIEVES ~~BEST~~ FOR ME TO BE IN
WASHINGTON THEN (STOP) BUT BELIEVES IMPORTANT FOR ME TO ATTEND UNCTAD
FOR SIGNIFICANT PERIOD OF TIME (STOP) WILL THEREFORE PLAN TO BE IN
DELHI FOR LAST PART OF CONFERENCE FROM ABOUT MARCH 13 OR 14 TO END OF
CONFERENCE PLEASE INFORM PREMISE, EVERTS AND OTHERS INTERESTED (STOP)
HAVE FULLY INFORMED JALAN OF DISCUSSIONS TODAY WITH MR. WOODS ON
SUPPLEMENTARY FINANCE (STOP) HE EXPECTS TO BE IN DELHI MONDAY (STOP)
REGARDS

FRIEDMAN

Irving S. Friedman
Office of the President

अशोक होटलज लिमिटेड
ASHOKA HOTELS LIMITED
MESSAGE FORM

To.....

Date.....

Room No.....

Time

Details of Message :-

Send this to Room No 109

Message Booked By :-

Signature

Signature

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

Mr. Friedman:

Received from Mr. Gilmartin's
secretary.

Jeanette Wawrik
March 19, 1968

PHONE CALLS AND VISITS

To		Date
Mr. Friedman		March 19
		Hour
<input type="checkbox"/> You were called	<input type="checkbox"/> You were visited	<input type="checkbox"/> Urgent
By		
Of the		
Phone		Ext.
<input type="checkbox"/> Call Party	<input type="checkbox"/> Returned Your Call	
<input type="checkbox"/> Will Call Again	<input type="checkbox"/> Requests Appointment	
Remarks		
<p>Professor B.R. Shenoy of Ahmedabad is arriving Delhi tonight. He has a room at Ashoka Hotel. He would like to have a meal with you tomorrow, March 20. He plans to return to Ahmedabad on the 20th. He would be grateful if you would leave a message for him at the Ashoka reception.</p>		
Received by: B.		

B. R. Shenoy
DIRECTOR
&
PROFESSOR OF ECONOMICS

PHONE : 78285
UNIVERSITY SCHOOL OF SOCIAL SCIENCES
GUJARAT UNIVERSITY
AHMEDABAD - 9

28 February 1968

My dear Irving Friedman,

I am scheduled to be in New Delhi on 5 March; and again on 7 March on my return journey from Aligarh. I have reserved a room at Ashoka Hotel for both these days.

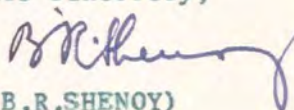
2. I arrive in New Delhi on 5 March by plane from Ahmedabad, which reaches Delhi at 10.40 a.m. I should very much like to have a meal with you, either on 5 March or on 7 March, depending on your convenience. I shall appreciate it if you could leave a note for me at the Reception, to await my arrival, indicating whether dinner on 5 March or 7 March would suit you. Lunch on 5 March or lunch on 7 March would be alternatives. But there is a risk of plane and train delays preventing me from reaching the Hotel sufficiently before lunch time.

3. I enclose clipping of an article by me on "Multiple Economic Ailments: Three Overdue Reforms", published in THE TIMES OF INDIA, dated 27 February 1968. This is my usual pre-Budget article. I have reviewed in it the major economic ailments which have been harassing the Indian economy for quite sometime; and have indicated the overdue measures of reform in so far as these reforms relate to the Union Budget. Briefly, I have indicated the necessity for zero deficit financing, drastic cuts in revenues and a phased programme of denationalization of public sector undertakings.

4. I have examined these issues in fuller detail in a series of articles published elsewhere. I hope to be able to mail to your address in Washington a reprint of these articles in the form of a booklet entitled INDIAN ECONOMIC CRISES: A PROGRAMME OF REFORM

Looking forward to meeting you,

Yours sincerely,



(B. R. SHENOY)

Mr. Irving S. Friedman
Economic Adviser to the
President
INTERNATIONAL BANK FOR RECONSTRUCTION & DEVELOPMENT
Camp: 7 Sardar Patel Marg
NEW DELHI-11

Encl: 1

MULTIPLE ECONOMIC AILMENTS

Three overdue reforms

By B. R. SHENOY

THE Indian economy has been for long harassed by many inter-related ailments of two broad categories, economic and socio-economic. The economic ailments include unending budget deficits and price inflation, stagnant exports, balance of payments difficulties, closures of production units, fantastic interest rates with the capital market in a state of near-paralysis, and a virtual pause in fresh investment activity.

The socio-economic ailments include, rising unemployment, growing mass indigence, which has rapidly spread to the erstwhile prosperous salaried middle classes, increasing social and political tensions and, on top of it all, unforeseen and unmerited abundance to a privileged minority, the numbers of whom have grown considerably and whose affluence strikes the eye all around us, much more in the urban areas than in the semi-urban and rural areas.

Bad monsoons

It is most dangerous to blame all this, as the Government has been doing, on two bad monsoons, on four weeks of the Chinese attack on our frontiers, in October-November 1962, and on three weeks of the Indo-Pakistani war, in September 1965. This may suggest that there is nothing basically wrong with the economy. The roots of the maladies go deeper than, and date well beyond, these misfortunes, though they have, doubtless, added to our difficulties.

Most of the ailments listed above have their roots in official policies of the past 15 years and, therefore, in the Union budget, the prime instrument for the implementation of these policies. The link between budget deficits and price acceleration is direct and obvious. As budget deficits are covered by printed money, they add to the flow of money incomes and the supply of goods remaining unchanged, prices rise.

Deficit financing

It is easy to see that the stagnation of our exports and the consequent balance of payments difficulties are also outcomes of deficit financing. Money incomes, representing inflationary finance, flow into the market and appropriate for domestic use a larger part of the national product than would have been the case if inflationary finance had not taken place. In 1966-67, for instance, the enhanced domestic use of the national product amounted to Rs. 274 crores, the budget deficit of the year. Such drafts on the national product by the home markets necessarily reduce the quantum of goods available for export. It follows that, so long as inflationary finance continued, the diversion of exports for home use will continue, too, and our balance of payments difficulties will persist.

The last two economic ailments relate to saving. The budget impinges on saving via both the revenue and capital parts of it. Savings being the difference between income and consumption, if consumption rises faster than income, the rate of saving would decline. The term "consumption" here applies to consumption by the State as well. The consumption expenditures of the State debited to the revenue budget, rose from Rs. 919 crores in 1954-55 to Rs. 3,980 crores in 1965-66, or a jump of 4.3 times. During the same period, national income rose 2.2 times. The faster increase in consumption expenditures meant a commensurate debit on national savings.

The capital budgets have been eroding savings indirectly. Though this takes us to a phenomenon, which some may not like to discuss in public, to ignore it is to miss a factor of some significance in the Indian economy. It is widely believed that when Rs. 100 crores is accounted to have been invested in public sector undertakings, what,

in fact, goes into these undertakings may be never Rs. 100 crores depending on the projects concerned and the circumstances, actual investments may vary from Rs. 60-80 crores.

The difference is distributed among several parties as "kick-back" payments. Thus, though national accounts will show that Rs. 100 crores of savings have been "invested," savings up to an order of Rs. 40 crores become concealed private incomes. The largest bulk of the latter would be consumed, though a part may be saved. It follows that, looking to the end position, actual savings are less than that stated in the statistics of savings. This aspect of the matter has assumed quantitative significance with the steep rise in public sector investments from Rs. 1,960 crores in the First Plan to Rs. 8,630 crores in the third.

The resulting damage to savings is evident in the decline in the rate of saving from 10.3 per cent. in 1965-66 to 8.2 per cent. in 1966-67 and to 6.4 per cent. in 1967-68. The quantum of national savings shrank, during the same period, from Rs. 2,170 crores in 1965-66 to Rs. 1,980 crores in 1966-67 and to Rs. 1,700 crores in 1967-68. If the water of inflationary finance is squeezed out of these statistics and due adjustments could be made for the conversion of savings into concealed private incomes, in the manner indicated above, the decline in savings may be even more distressing than these figures suggest.

Unearned windfalls

This decline in savings seems to provide the central explanation for the scarcity of capital, the decay of the capital market, the stagnation of fresh investment activity and the increase in unemployment. There is little hope of remedying the economic recession without a stepping up of savings. And savings are not likely to increase without three essential measures of budget reform: balancing the budget, drastic cuts in revenue expenditures and a phased programme of denationalisation of public sector undertakings.

A resort to deficit financing will be disastrous. It will add to the diversion of potential exports for home use, further depress exports and accentuate balance of payments difficulties. It may be no less disastrous to attempt to balance the budget by increased taxation. By further eroding savings, this may strengthen the recession.

The socio-economic ailments are the end results of the economic ailments. The increase in unemployment is linked up with the closure of production units and with the slowing down of fresh investments, both being related to the decline in savings. The affluence of the few in the context more stinting by the masses is the outcome of income shifts from the masses to the upper-income groups: the combined result of price acceleration, the unmerited and unearned windfalls, which accrue to the recipients of import licences, and the monopoly gains, which attend economic controls. In the aggregate, these income shifts may be of the order of Rs. 750 crores annually, the largest bulk representing windfalls from import licences.

Rising prices

These income shifts constitute the biggest single problem confronting us today. Against a background of semi-stagnant per capita income, they add to family budget pressures on a wide front and, unless corrective measures are adopted soon enough, they may, before long, assume explosive dimensions. These family budget pressures are, doubtless, a prime driving force behind Naxalbari, "gheraos", "bandhs" and "dharnas" and such other manifestations of tensions, now stalking the land.

Of the three measures of budgetary reform cited above, zero inflation has received official acceptance, though still only on the plane of ideas. During the past three years, every budget speech has urged the importance of "eliminating" deficit financing. But performance has contrasted with precepts. During the past three years we have had heavy budget deficits and prices have risen at over 15 per cent. per year, a near-record rate in the recent history of price inflation in India. Available evidence suggests that the budget deficit in the current year may be even higher than the average of the past three years.

APPOINTMENTS

WANTED

INTERNAL AUDITOR

An Engineering Industry in Bombay requires an **INTERNAL AUDITOR** with Degree in Commerce/Law and experience in Accounts & Internal Auditing, well-versed in Income-tax & Sales Tax matters, quick in calculation, with good handwriting, knowing Gujarati, working in Chartered Accountants' firm and/or Income Tax Office.

Apply in own handwriting with details of Educational Qualifications, Experience, Personal Data, Age, Reasons for Leaving Prior Service, References, relevant Certificates and Testimonials, Minimum Salary expected & Guaranteed Period of Service, to Box 25317, "The Times of India," Bombay 1.

SARABHAI MERCK LTD.

require

SALES REPRESENTATIVE

Applications are invited for the post of a Sales Representative for Sarabhai Merck's Laboratory Chemicals and Fine Chemicals for the State of Maharashtra with Headquarters at Bombay|Poona|Nagpur. The candidate must be at least B.Sc. with 2 to 3 years' experience in Sales and/or in Analytical work. Appropriate salary would be offered in the grade of Rs. 200-460/- (consolidated) plus sales incentive bonus as per rules of the Company from time to time. Apply within 10 days stating age, qualifications, experience etc. to: Sarabhai Merck Limited, P.O. Box No. 80, Baroda.

WANTED

for a Chemical Factory in Thana :
Air Conditioning Mechanic.

In the advertisement which appeared in the issue of 3rd February, through an error the qualifications required for the above post were wrongly given.

This should read : **Air Conditioning Mechanic** : a maintenance mechanic with 5 years' experience in overhauling and repairs of air conditioners, water chilling plants, refrigeration plants etc.

The Personnel Division,
Post Bag 10, Thana.

CALICO CHEMICALS & PLASTICS DIVISION

Anik-Chembur, Bombay 74 AS

require

ELECTRICAL & MECHANICAL ENGINEERS

Degree or Diploma holders in Electrical and Mechanical Engineering with 2/3 years' experience in maintenance, erection and designing of utilities etc. Fresh Degree or Diploma holders with good academic careers may also apply to the Personnel Department, quoting Ref. No. LA/69.

REQUIRED

REGIONAL SALESMEN OF HIGH CALIBRE

by a reputed PISTON manufacturing Concern
Experience: 5 years in selling automobiles/Stationary Engine Spares.

Age: 30/40 years.

Job requirements: Excellent leadership & willing to travel.

Apply in confidence stating salaries drawn & expected "The Times of India", Bombay-1.

W A N

Wanted (1) Trainee Assistant
B.Sc. Training period will be 1
years for Inter Science. Du

Mur. Friedman

c/o Ashoka Hotel, New Delhi, India

Letter No. 85

March 20, 1968

Dear Dick:

Very little happened in the Plenary last week. In reality, the only event I can report is the election of the newly independent state of Mauritius as a member of UNCTAD. Thus due to this important event the "77" will become something like 87.

The same Plenary heard exhortations from Udink (the Dutch Minister for Economic Development) as well as Father Riedmatten, the representative of the Holy See.

Their well intended exhortations have not yet had success. The Conference is deadlocked. As I shall report in more detail in a separate letter, all the really basic problems on Commodities and Preferences had to be referred to the "summit group" which, in the meantime, developed into another mammoth institution: at its meeting yesterday, there were well over 50 people attending. Such huge membership in each committee makes substantive discussions even more difficult, if not impossible.

There is constant talk about impending changes in the direction of UNCTAD: that Prebisch will resign this year and his successor will be designated by the General Assembly. A number of people think that K.B. Lall of India is a candidate for the job. He certainly has done his best, in the course of this Conference, to be kept in the limelight and there was often open friction between Prebisch and Lall on the one hand, and Stanovnik and Lall on the other. All three are unhappy because of the Brazilian attitude in this Conference: the latter continue to talk about the failure and would like to have the Conference suspended.

All these are just rumours. When one meets Prebisch, he certainly does not give the impression of a man preparing to retire.

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

.../...

Disagreement also exists in the camp of the developed countries. France goes it alone in most of the questions. (When in Group B negotiations on supplementary finance come up the French delegate stands up and leaves the room). Some smaller countries like the Scandinavians and the Netherlands would prefer to take liberal attitudes in a number of questions relating to aid and therefore disagree with the big donors, Germany, Italy, Japan and the U.S., and in most of the questions, also the U.K. Thus, within Group B, we can discern at least three different attitudes and this does not contribute towards making the inter-group negotiations more effective.

So far as the future programme of the Conference is concerned, the elections for membership of the Trade and Development Board will probably take place this week. (One of the new members of the Board will be the representative of Guatemala, Senor Enrique Lopez Herrarte). It is not yet certain whether the new TDB will hold its first meeting immediately after UNCTAD II, in Delhi or, later, in Geneva. There is also talk about another meeting of the 77 here in New Delhi of the Algiers Charter type. If this actually takes place, its purpose would be to work out a "Delhi Declaration" of the less developed world.

With best regards,

Sincerely yours,

Arthur Kerasz

cc: Mr. Sarma
Mr. de Fontenay
Mr. Wishart

Mr. Friedman

c/o Ashoka Hotel, New Delhi, India

Letter No. 86

March 20, 1968

Dear Dick:

In my letters Nos. 48 and 64, I reported a draft resolution on the extension of the operations of the World Bank.

The developed countries are unhappy with the draft and requested the German delegation to prepare a counter-proposal containing the following ideas:

The Conference:

- 1) Expresses appreciation of IBRD's work which has contributed so much to the work of economic development.
- 2) Notes that IBRD has always adjusted its activities to the needs of the less-developed world.
- 3) Encourages the governments to continue their support of the work of the World Bank family.
- 4) Recommends to Member governments to advise their representatives to consider the following questions in order to render the services of the IBRD group as efficient as possible:
 - (a) that the Bank should devote as large as possible a part of its resources for assistance to LDC's, but paying due regard to the need of maintaining sound banking standards;
 - (b) that the Bank should consider, to the extent compatible with its purpose and character as a Banking institution, to adjust the terms of its lending to the circumstances of the LDC's concerned.

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

.../...

- 5) (c) that the Bank would continue, in appropriate cases, to extend loans for programmes not only for projects;
- (d) that the Bank should increase its operations in rural and urban developments, in education, agriculture and economic integration;
- (e) that the Bank should increase its joint operations with regional development banks;
- (f) that the Bank should extend its coordinating services with regard to particular countries (meaning consultative groups and consortia); and
- (g) that IDA should give particular attention to the least developed among the developing nations.

With best wishes,

Sincerely yours,

Arthur Kerasz

cc: Mr. Sarmah
Mr. de Fontensay
Mr. Wishart

AK/jlw

Mr Friedman

c/o Ashoka Hotel, New Delhi, India

Letter No. 37

March 20, 1968

Dear Dick:

In this letter, I would like to try to describe the main substantive developments in the course of the last week.

There were not many of them; as you can imagine, the London gold rush was not exactly favourable for the taking of substantive decisions in the field of trade and aid.

Some very limited progress might have been made on the subject of Preferences. The West had agreed to a general system of Preferences before the Conference. However, they are not in a position to go much beyond that without further negotiations between themselves, and they are definitely not willing to meet the many demands of the developing countries.

On Commodities, Canada and the US put forward a draft resolution on the liberalization of trade, with an action programme including standstill on tariff or non-tariff barriers, refraining from the introduction of new fiscal charges, and on market-sharing.

There is also talk about a new US draft on pricing policy.

Unlike 1964, when Committee III on Financing was the most active and successful, this time no results have yet been achieved and the difficulties, probably also due to the events in the Western monetary markets, seem to be great.

As reported in previous letters, there are a certain number of draft resolutions submitted by the two groups but their consolidation is far from being achieved. They were given to "mini-contact groups"

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

.../...

the latest achievement of this Conference. One of the mini-contact groups, consisting of Jo Saxe (US), Koinzer (Germany) and Jayawardena (Ceylon), worked out a compromise formula on Supplementary Finance. The text is now being discussed by the other members of Group B on the one hand, and the 77 on the other. As of today, no progress has been made on the text. One of the articles of the draft of the mini-contact group talks about the Agency and states that "Supplementary Financing is to be administered by an Agency within the World Bank family." This is not a new idea, it appears in the original UNCTAD I resolution on Supplementary Financing and also in the report of UNCTAD II by the Intergovernmental Group. Nevertheless, I wanted to make our position clear, and at a luncheon party offered by Dr. Prebisch I drew the attention of both Prebisch and Jo Saxe to the fact that the Bank delegation does not have authority to discuss the Bank's role in the Agency. It will be up to the Board of the Bank to make a decision in the matter. Mr. Friedman who was present at the luncheon explained the same idea. Later, I had the opportunity of informing Koinzer also on the above.

Other matters in Committee Three are on terms and volume of aid but with very little hope for any substantive improvement as compared to the past. The recommendations of the LDC's concerning the reorganization of the Bank and the Fund (compensatory financing and new monetary system) have still to be discussed.

I am sorry I cannot give you a more optimistic report about this Conference, but this is how I see the situation to the best of my knowledge. It is a pity that so much time and so much effort had to be spent for so little achievement. I am doubtful whether we can still hope for a miracle in the course of the last six days.

With best regards,

Sincerely yours,

Arthur Karasz

AK/jlw

cc: Mr. Sarma
Mr. de Fontenay
Mr. Wishart

HEADQUARTERS:
WASHINGTON D. C. 20433

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CABLE ADDRESS-INTBAFRAD



INTERNATIONAL DEVELOPMENT ASSOCIATION

CABLE ADDRESS-INDEVAS



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

March 14, 1968

Dear Mr. Friedman,

Welcome! We are at Claridges Hotel - Phone 619411.
Sarma is in Room 209 and Jalan, Room 240.

Friday, the day you are arriving, is a holiday on account of the Holi festival. The Conference is also closed and there are no meetings. We are also told that on account of the festival, there will be no traffic on the road until the afternoon. However, we will come and see you as soon as traffic conditions permit. We will ring you up and fix the time.

In the meantime, we are leaving a file of some Conference Papers on Supplementary Finance. It includes two resolutions presented by Group 'B' and the Group of 77 to the Contact Group of the Third Committee. The Contact Group began discussing these resolutions today but no compromise has been worked out yet. These are likely to be taken up again on Saturday or Sunday when the Contact Group meets again. In the file there is also a copy of Prebisch's speech made before plenary a couple of days ago, when he took stock of the progress made in various Committees. Pages 3 to 5 deal with Supplementary Finance.

Regards,

Sincerely,

N.A. Sarma
Bimal Jalan

R109
R. F. A.

382267

HEADQUARTERS
WASHINGTON D.C. 20543

Sweden
IDA

Dear Mr. Friedman

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION



EUROPEAN OFFICE
4, AVENUE D'ENNA
PARIS (18^e) - FRANCE
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various Committees. Pages 3 to 5 deal with Supplementary
Finance.

Regards,

Sincerely,

N.A. Saxs
James Jaisn

Fried
1/18

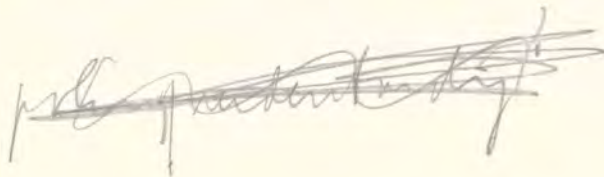
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Possible compromise on Supplementary Financial Measures.

1. The Conference agrees on the urgency of the need to institute a Scheme for providing supplementary financing to developing countries which have suffered shortfalls from reasonable expectation in their export proceeds of a nature which may disrupt their development plan. The Scheme should be entrusted to an Agency within the World Bank ^{group} framework.
2. It is essential that the Scheme should on the basis of appropriate criteria provide reasonable assurance against disruption of development plan that might result from such export shortfalls to the extent that they cannot be met by short-term balance of payments support.
3. The Conference expresses appreciation of the report prepared by the staff of the IBRD and of the report of the IGG and notes that the majority of the members of the Inter-governmental Group believe that, although a number of questions - some of them important - require further consideration, the objective set out in Part A of Recommendation A.IV.18 can be achieved by a Scheme with the essential characteristics of the Bank Staff Scheme.

The report of the Bank and the Inter-governmental Group have defined the issues involved and clarified many of them. The Conference agrees that further work is required to resolve some outstanding issues. The Conference also agrees that this further work should be guided by the following ^{principles} considerations:-

(i) The Agency administering the Scheme and the country should, where in their joint judgment ^(it) is feasible, agree at the beginning of each plan period on the level of exports that may be reasonably expected during that period, on the basis of export projection and informed



judgment ~~is~~ on which the scope of the plan is based.

(ii) A shortfall from the pre-agreed level of exports as established under (i) above should form the basis of a prima facie claim to supplementary financial assistance under the Scheme.

(iii) ^{There should be an} The policy understanding between the country and the Agency relating to the plan, should in no case involve commitment which would infringe the sovereignty of any member country as defined by that country.

(iv) There should be provision for the use of other available resources in a prudent measure by countries applying for supplementary financial assistance under the Scheme.

(v) There should be a clearly limited financial commitment by donor countries to a fixed and adequate amount, such amount to be additional to that which donor countries are now providing by way of development finance. The Conference is satisfied that a workable scheme of Supplementary Financing could be set up on the basis of a fixed commitment of \$300 to 400 ^{million} per annum for an initial 5-year period with a suitable provision for rationing these resources, if necessary.

(vi) There should be compatibility between the Scheme of Supplementary Financing and the Compensatory Financing Facility on the International Monetary Fund.

4. Within the principles set forth in paragraph 3 above, the following principal issues remain to be discussed:-

(i) The consideration ~~to~~ to be taken into account by the Agency in assessing the amount of assistance of supplementary financial

into that the whole of the ...

assistance on the basis of export shortfalls.

(ii) The scope, nature and acceptability of the understanding between the Administering Agency and the individual participant countries on their own development programmes and the policies to be adopted in order to carry them out.

(iii) The nature of the other available resources to be drawn upon by countries applying for such assistance.

(iv) appropriate formulae for the rationing of the fixed financial commitment envisaged in paragraph 3(v) above.

(v) The nature of the relationship between Supplementary and Compensatory Financing.

5. In considering the issues outlined in paragraph 4 within the principles set out in paragraph 3, any possible modification of the World Bank Staff Scheme should receive due attention with the aim of working out the most effective measures possible.

6. The Conference decides -

(i) to continue in existence the Inter-governmental Group for the purpose of working out a Scheme for Supplementary Financing along the lines envisaged in paragraphs 1 to 5 above;

(ii) to authorise the Inter-governmental Group to negotiate and decide on the features of the machinery for Supplementary Financing including Draft Statute and proposals for the financing of that machinery in time for it to be submitted to the 7th meeting of the Trade and Development Board.

7. etc. (Calendar for the work of the Group to be further discussed)

1969

Call to War

Forbes asks for Friedman

Conference here in throes of trying to find formulas on major topics preferences

supplementary frame and commodity agreements. Stop on ~~last two~~ ^{commodity} ~~will be regarded as~~ ^{be}

~~attitude on our last conversation on~~

~~both subjects and also~~

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preferences
views on ~~trade~~. My Degree here

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if it includes, will involve both groups working in cooperation with Fed, but also appreciated here

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~~to~~ ⁱⁿ ~~supplementary~~ ^{framing} ~~by~~
some form of ^{intergovernmental} group or in
post ~~stop~~ ^{budget} ~~conference~~ ^{not}

~~conference~~ may still produce useful results
despite many ~~handicaps~~ ^{handicaps}

but press and ~~report~~ ^{report} of ~~interest~~ ^{interest} ~~disturbances~~ ^{disturbances}

help to find detail of event in detail reached

New Delhi.

March 21, 1968.

Dear Arthur,

I have revised the attached possible brief address and have shown it to both Jo Saxe and Lal Jaywardena. (They asked to come to lunch together today and we had a long talk on where SFM was going and where it might come out at this Conference.) They both thought the talk was worth making, stressing that Woods had said virtually nothing about Bank/IDA activities in his address. I expressed our concern but they felt that the language was cautious and non-controversial, but still would add something worthwhile to the Conference.

Please read the attached. Does it meet your concerns? I am inclined to give it, if time permits, and it is clearly understood that I am being invited by the Chairman to make these remarks. I have an appointment with Morarji Desai at 5 and then return to the hotel. Would you ask Bimal to convey your reaction to me; in any case, I have promised to speak to Prebisch, but I would like your reaction first.

Thanks,

Mr. President, I am glad to accept your kind invitation to make some brief remarks. Mr. George Woods, President of the World Bank, had the honour and pleasure of presenting his views on the larger problems of development during the opening days of the Conference and I need not repeat what he said. Instead, I thought it may be useful if I were to inform you on some of our activities which have been the matter of discussion and interest in the deliberations of various Committees at this Conference.

The World Bank Group is essentially an instrument created by Governments to serve the purposes of development. Towards this end, our activities take many forms. One of these, and if I may say so, not the least, is that of raising development finance. The Bank itself raises development finance by going to the capital markets from time to time. For another member of the group, namely, the IDA, which extends credits on concessional terms, we have to rely on direct contributions by the more developed member governments. Since IDA is a source of multi-lateral credits on concessional terms, we have felt that the replenishment of IDA resources periodically at increasingly higher levels is of the utmost importance. The Bank representative, Mr. Karasz, has already informed Committee III of the details of the agreement on second replenishment of IDA resources just concluded. The resources of IDA, after the necessary governmental approval, will be replenished by 400 million dollars annually for three years. As distinguished representatives here would recall, the first replenishment was 250 million dollars a year; thus in the next period there will be a substantial increase in the resources available to IDA. Happy as we are about this increase, as Mr. Woods observed about

a fortnight ago in his keynote address to the 10th Anniversary of the World Conference of the Society for International Development, "this is only a modest step, and it still leaves an urgent need for improvement in the bilateral programs themselves and for additional support to the multilateral programs, in particular through supplemental contributions to IDA."

A matter of concern to this Conference, and to all of us, is the problem faced by countries exporting primary products. The Board of Governors of the Bank adopted a Resolution at the 1967 Annual Meeting in Rio de Janeiro calling on the President of the Bank to have the Staff prepare a study on the problem of stabilization of prices of primary commodities, in consultation with the Fund's Staff. A parallel resolution was adopted for the Fund. The Study as you know relates to the problem, its possible solutions and their economic feasibility.

The work on this Study is now in progress. We are approaching this without any preconceived attitudes, and in an objective manner, with a view to analysing available facts so as to consider what we can possibly do within our area of competence. The scope of these studies would cover the nature and dimensions of the so-called commodity problem, questions relating to buffer stock financing and diversification programs. Of course, at this stage, it is not possible to anticipate what the outcome of these studies would be, but our intention is to complete the Report, if possible, early enough so as to permit consideration by the Governors at the 1968 Annual Meetings. We can all agree that the real solvent to such problems of developing countries is really economic development itself - a process to which the World Bank Group is fully committed.

This brings me, Mr. President, to the cooperative links that obtain

between us in the World Bank Group and the UNCTAD. You are aware of the studies that we have prepared at the request of the UNCTAD on the Horowitz proposal, suppliers' credits and Supplementary Financial Measures, among others. We have participated in various discussions within the UNCTAD forum on these and other subjects. One of the important subjects before this Conference is surely that of Supplementary Finance. We, on our part, both in the proposals we put forward and in the discussions that have followed, have been guided by the objectives set forth in the Resolution A.IV 18 of the First Conference and the requirements of a scheme which could be considered feasible and practical. We have done our best, whenever invited, to explain and elaborate one feature or the other of the Scheme in the intergovernmental group and elsewhere. It is quite possible that, as a result of these technical discussions, modifications and improvements of the original proposal will be desirable. In any case, Mr. President, it is of course for the governments now to take a view of the matter and come to decisions they consider appropriate.

Finally, Mr. President, may I refer to the suggestion that Mr. Woods first made last October in an address to the Swedish Bankers Association for a Grand Assize by a group of leading world experts in the field of development, to study and assess the problems of economic growth and development finance, so as to facilitate a re-formulation of policy. During the past 20 years, we have acquired considerable experience in the field of development, and the time has come to make a systematic analysis of our successes and failures in this field so as to provide us with a better basis for the future. The gathering support for this proposal is most heartening and I believe that Mr. Woods' suggestion will soon become a reality.

I am grateful to you, Mr. President, for giving me this opportunity to share a few thoughts with those assembled here. Mr. Woods, and all of us in the World Bank Group, have been following the proceedings of this Conference in these last few weeks with great interest. A successful outcome of the deliberations here is important to all of us in this field, and I wish you well.

Thank you.

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facts so as to consider what we can possibly do within our area of competence. The scope of these studies would cover the nature and dimensions of the so-called commodity problem, questions relating to buffer stock financing and diversification programs. Of course, at this stage, it is not possible to anticipate what the outcome of these studies would be, but our intention is to complete the Report, if possible, early enough so as to permit consideration by the Governors at the 1968 Annual Meetings. I would like to say, however, that the real solvent to such problems of developing countries is really economic development itself - a process to which the World Bank Group is fully committed. The extent to which the World Bank Group can contribute to this process would to a great extent depend on the resources available to it.

This brings me, Mr. President, to the cooperative links that obtain between us in the World Bank Group and the UNCTAD. You are aware of the studies that we have prepared at the request of the UNCTAD on the Horowitz proposal, suppliers credits and Supplementary Financial Measures, among others. We have participated in various discussions within the UNCTAD Forum on these and other subjects. One of the important subjects before this Conference is surely that of Supplementary Finance. We, on our part, both in the proposals we put forward and in

the discussions that have followed, have been guided by the objectives set forth in the Resolution A.IV.18 of the First Conference and the requirements of a scheme which could be considered feasible and practical. We do believe that the scheme proposed by the Bank Staff meets the problem posed by the Resolution. We have done our best, whenever invited, to explain and elaborate one feature or the other of the Scheme in the inter-governmental group and elsewhere. It is quite possible that as a result of these technical discussions, modifications and improvements of any original proposal would be necessary. In any case, Mr. President, it is now for the Governments to take a view of the matter and come to decisions they consider appropriate.

Finally, Mr. President, may I refer to the suggestion that Mr. Woods first made last October in an address to the Swedish Bankers Association for a Grand Assize by a group of leading world experts in the field of development, to study and assist the problems of economic growth and development finance, so as to facilitate a re-formulation of policy. During the past 20 years we have gathered considerable experience in the field of development, and the time has come to make a systematic analysis of our successes and failures in this field so as to provide us with a better basis for the future. The gathering support for this proposal is most heartening and this Conference has, without doubt, furthered this idea.

I am grateful to you, Mr. President, for giving me this opportunity to share a few thoughts with those assembled here. Mr. Woods, and all of us in the World Bank Group, have been following the proceedings of this Conference in these last few weeks with great interest. We are aware of the problems and difficulties and we do earnestly hope that the representatives of Governments assembled here would find solutions to at least some of these difficulties. A successful outcome of the deliberations here is important to all of us in this field, and I wish you well.

Thank you,

New Delhi.

March 21, 1968.

Dear Arthur,

I have revised the attached possible brief address and have shown it to both Jo Saxe and Lal Jaywardena. (They asked to come to lunch together today and we had a long talk on where SFM was going and where it might come out at this Conference.) They both thought the talk was worth making, stressing that Woods had said virtually nothing about Bank/IDA activities in his address. I expressed our concern but they felt that the language was cautious and non-controversial, but still would add something worthwhile to the Conference.

Please read the attached. Does it meet your concerns? I am inclined to give it, if time permits, and it is clearly understood that I am being invited by the Chairman to make these remarks. I have an appointment with Morarji Desai at 5 and then return to the hotel. Would you ask Bimal to convey your reaction to me; in any case, I have promised to speak to Prebisch, but I would like your reaction first.

Thanks,

New Delhi.

March 21, 1968.

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Thanks,

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

Statement by Dr. Prebisch in Plenary
on March 12 : he devoted a main part
to Supplementary Finance.
(Also, for information please, some
correspondence between Mr. Karasz and
Mr. Demuth on this)

N. A. Sarma

N. A. Sarma

March 14

c/o Ashoka Hotel, New Delhi, India

Letter No. 71

March 13, 1968

Dear Dick:

... Prebisch finally addressed the Plenary yesterday, March 12. This was the statement we had been expecting since March 5. I enclose Sarma's memo on the main points of his speech.

It was not an optimistic speech. He started by pointing out that there might be a danger of failure of the entire Conference. He singled out a few areas where efforts should be made to arrive at agreements between the developed and developing nations. They are in the field of Commodities, Preferences, Financing Assistance and Supplementary Finance. He would like the Conference to concentrate on these issues as the first step towards formulating a global strategy of development.

Prebisch represents the interest of the LDC's because this is his main job. His criticism therefore is mainly directed towards the developed nations. Whether this method of his really serves the interests of the LDC's is not entirely proven.

As mentioned in Sarma's memo, speaking about Supplementary Finance, he pointed out that the Bank scheme is a good beginning but, as he has done on previous occasions, he also mentioned some points with which he does not agree entirely. One of them is the automaticity of the scheme, another is related to national sovereignty (policy package). For the sake of completeness, I might add that some delegates with whom I discussed Prebisch's statement have the feeling that he is now more interested in the Conference accepting a principle of Supplementary Financing in general even if it is not within the Bank scheme. According to their notes, he said the following on this subject: "I hope strongly that an agreement will be reached on the main guidelines of Supplementary Finance. This need not necessarily be based on the proposals of the Bank staff."

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

.../...

The texts of Prebisch's statements are always edited before publication; therefore, I would like to ask you to consider this only a temporary record until we receive the official text.

In any case, Prebisch is in a sombre mood and he has every reason for that.

With best regards,

Sincerely yours,

Arthur Karasz

cc: Mr. Sarma ✓
Mr. de Fontenay
Mr. Wishart

AK/jlw

UNCTAD II : Plenary Meeting

March 12, 1968.

The Minister for External Affairs for Denmark, Mr. Hartling, addressed the Conference. He emphasized the importance which his Government attached to Supplementary Financing, commodity arrangements and preferences. He suggested that the spring session in 1969 of the Trade and Development Board should devote its whole attention to these three items. In his view, it might be appropriate to hold that session of the Board at ministerial level. As for Supplementary Finance, a decision was now both desirable and possible.

The Secretary-General, Dr. Prebisch, made a forthright and forceful statement to the Conference, expressing great concern at the way the Conference was proceeding. In his view, the Conference was on the verge of failure, and the prospect was sombre. Such failure could and should be avoided.

Dr. Prebisch dealt with each of the main issues before the Conference:

i) Access to markets: The proposal of the developing countries was a modest and pragmatic one, for a share of the increment in consumption in the industrial countries; as yet there was no positive response from the industrial countries.

ii) Preferences: The Secretary-General paid a tribute to the document of the OECD countries. However, unless further improvements were made, the benefits would be limited to a small number of the more advanced among the developing nations.

iii) Transfer of financial resources: The aid target of 1% GNP had not been accepted and he did not detect progress in this area.

iv) Supplementary Financial Measures: The need for Supplementary Financing had been recognized for years by experts. The First UNCTAD came up with constructive proposals, largely at the initiative of U.K. and Sweden. A scheme had been prepared by the World Bank Staff and fruitful discussions had taken place on the subject within the intergovernmental group.

(continued .. 2)

He was really distressed at what was now happening, especially when issues were raised about alternative possibilities, or whether an export shortfall was really detrimental to development programs. All those who have had anything to do with the economic and financial problems of developing countries knew that export shortfalls were disruptive of development programs. There was no incompatibility between commodity arrangements and Supplementary Finance. Dr. Prebisch dealt at some length with this question. Nor was it necessary to await the conclusions of the Bank-Fund Studies in terms of the Rio Resolution before taking a decision on Supplementary Finance. He expressed the hope that an agreement on the main elements of Supplementary Finance would be reached here at this Conference. It was not necessary to agree on every detail of the Bank Staff Scheme. He himself had earlier expressed the view the Bank Staff Scheme seemed automatic. Nor was it necessary to bring in the policy package, when it was recognized that lending institutions have always adopted some such understanding.

Dr. Prebisch hoped that in the next few days the socialist countries would come forward with quantitative targets for their trade with LDC's, not only with respect to primary commodities but also manufactured items.

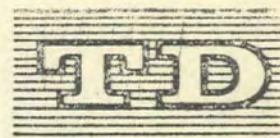
A global strategy of development should be the basis for the next development decade. Such strategy would not be possible without convergent measures by developed and developing countries. In this context, Dr. Prebisch once again enjoined on the LDC's what he called 'the discipline of development'.

N. A. Sarma

cc: Mr. Karasz (2)
Mr de Fontenay



SF pp 35



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13 March 1968

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United Nations Conference on Trade and Development

Second session
New Delhi, India

Statement made by Dr. Raúl Prebisch, Secretary-General of
the United Nations Conference on Trade and Development,
at the 66th plenary meeting of the Conference,
on 12 March 1968

Thank you, Mr. President, for giving me the floor this afternoon. This morning, when I announced to you my intention to speak today, it was with a great and growing concern in relation to the evolution and the possible outcome of this Conference.

Nearly four years have elapsed since the first session of the Conference. This Conference has been carefully prepared. The secretariat has produced all the documents requested by Governments. Committees have been continuously working in Geneva and New York; Working Parties were set up on various matters. We had five sessions of the Board and at its last session the Board agreed on a list of "points of crystallization" - to use the definition given by President Jolles - with respect to which ideas and possibilities had matured in such a way that it could be expected that this Conference would arrive at practical, concrete solutions.

But very little has been done. Five weeks of consultations and debate have elapsed during this Conference and I am very sorry to say, Sir, that we cannot detect - except here and there - very positive results. This Conference is on the verge of failure. I do not hesitate to say so, but this failure can be avoided and should be avoided. We still have a few days. A few days during which we must show patience, energy, determination and also imagination in order to achieve proper solutions to the problems of developing countries. At this Conference, there is no need, Mr. President, to further explain these problems or to advocate once again this or another formula. The fact that these are well known turns even more serious the sombre prospects that I have mentioned if no significant measures are taken here and now.

Moreover, I do not believe that in this Conference we could resort to the procedure of the last Conference whereby, after a period of negotiations, and faced with the impossibility of concrete agreements, rhetorical concessions were made which did not serve any practical purpose. Nor could we repeat the procedure of Geneva of agreeing on a text and then adding a "chapeaux" that destroys the purpose of that text. What we need is to arrive here at very concrete solutions on the "points of crystallization". I am not selecting these points; these points have been chosen by Governments at the fifth session of the Board. They were the subject of a general consensus that President Jolles presented in a vivid way at the conclusion of the session.

I should like, Sir, to review briefly what has been happening at this Conference with respect to the "points of crystallization". I have at hand the resumé made by President Jolles.

The first point is access to markets. The First Conference approved a recommendation, included in the "chapeaux", to eliminate all restrictions to the imports by developed countries of primary commodities from developing countries. After it was proven that this type of resolution was not conducive to anything concrete, developing countries adopted in Algiers among other methods of dealing with this problem what I consider to be a very moderate, pragmatic, approach. The Charter of Algiers proposes that developed countries should give a share to imports coming from developing countries in their increment of consumption and that negotiations should be conducted to that end, within the framework of UNCTAD, on a commodity-by-commodity basis. I have not seen, Mr. President, any positive answer to this very moderate request. Nor have I noted any progress towards an agreement on the mechanisms and methods which are required to achieve the commodity-by-commodity solutions that have been advocated.

In respect to preferences, we should compare, with a certain historical perspective, the present situation to that which existed four years ago. I do not hesitate in paying tribute to the Governments members of OECD for having presented to the Conference their document on preferences. That document involves a turning point in the commercial policy of developed countries and this should be recognized. But while constituting a good basis for a discussion of the problem, the OECD document is not a complete or perfect solution to the problem. It requires improvement

and completion; it requires political balance, because notwithstanding its great value, a system of preferences, as conceived in the document, will benefit a limited number of advanced developing countries but not a sizeable number of developing countries who only in the course of time will be able to benefit from the scheme. Hence, without in the least minimizing the meaning of this proposal, I should like to see in the next few days a considerable effort to go beyond the OECD proposal and to try to reach an agreement through a process of patient negotiations. I repeat, to try to agree with developing countries on a common solution to this very important aspect of our problem, and if this is done, Mr. President, the merit of the OECD proposal will be considerably enhanced.

In relation to the transfer of financial resources, Mr. President, the situation is not encouraging. The aid target of 1 per cent of the gross national product for transfers of financial resources from developed to developing countries has not yet been accepted. It has been a matter of discussion, methodical discussion, but I do not detect great progress. And this is a fundamental element of any development policy. If the amount of resources transferred from industrial countries to developing countries is not increased there is no possibility of real progress in the acceleration of the growth rate of developing countries. I hope, Sir, that in this matter the Conference, again through a process of negotiation, will be able to agree on a practical solution.

With regard to supplementary financing, I am really distressed. The need for supplementary financing has been recognized in the United Nations, by experts and Governments, for many years. But only during the First UNCTAD we started to see the light, when the United Kingdom and Sweden presented a draft resolution on this matter. I am afraid, Sir, that we run the risk now of retreating from that point because, notwithstanding the presentation of a concrete proposal by the staff of the World Bank, and the very fruitful discussions of the Inter-Governmental Group on this problem, there are still considerable obstacles. What worries me more, Mr. President, is that discussion has again started by presenting supplementary financing, commodity agreements and organization of markets as alternatives. I do not see, Mr. President, any incompatibility between them. On the contrary, commodity agreements and supplementary financing are needed, with other measures, to attack the external vulnerability of developing countries.

Why do we think that there is no incompatibility between supplementary financing and commodity arrangements? First of all, Mr. President, not every commodity can be the subject of a commodity agreement. Second, we know the difficulties that are encountered in the negotiation of a commodity agreement. May I recall that when we were sure that the agreement on cocoa was mature, we had to recognize that adverse factors were more strong than the aspirations of the Governments of developing countries and of a sizeable group of developed countries. But even assuming that commodity agreements could cover a reasonable period of time, and I have doubts about it, such agreements will not solve the whole problem. Take, for instance, the case of cocoa. In cocoa a margin of fluctuation of 20 to 29 cents per lb. was envisaged in the agreement and thus, notwithstanding the agreement, exports of cocoa would continue to be subject to fluctuations. The role of supplementary financing is precisely to attenuate these residual fluctuations. It is clear, therefore, that the two measures are quite convergent in the attainment of the same objective.

Now, let us suppose that in the next five, six, eight years - notwithstanding my doubts, and I hope that I am mistaken - we could have commodity agreements for all commodities and that, at the same time, the margins of fluctuations would be gradually narrowed. In that case, the need for supplementary financing would gradually disappear. Supplementary financing would wither away. This would be the time to forget about it but not before.

But this is not only a matter of alternatives, Mr. President. In the discussions of these few days the retreat has been more serious. I know, for instance, that it has been asked whether it is true that a shortfall in export earnings is detrimental to the investment programme of a developing country. Well, - is it necessary, Mr. President, when we are trying to protect somebody from the rain to request that a study be made to determine if somebody will get wet by standing unprotected in the rain? This is what we are proposing to do in supplementary financing, by engaging in such discussions. All of us who had something to do with economic and financial policy in developing countries know that shortfalls in exports earnings have very detrimental effects in any investment programme and I was very glad this afternoon to listen to the Foreign Minister of Denmark when he said that planning was jeopardized by shortfalls of exports.

I will not enter into the details of this matter, Mr. President, but I very much hope that an agreement on the main guiding lines on supplementary financing could be attained at this Conference. I do not mean that this agreement would reflect in every way the proposal of the staff of the Bank. From the very beginning I said within the Inter-governmental Group that in my view the scheme should not be automatic. I also said that it was a mistake to speak about the policy understanding as a requirement solely of supplementary financing. As we know, the lending institutions have always examined the policy of a country before committing their resources - why, then, consider this as something new in the context of supplementary financing? I pay tribute to the staff of the Bank but I do not think that it is necessary to follow their proposal word for word. But I do hope that Governments will agree on the main principles of the scheme.

I do not believe, on the other hand, that it is necessary to wait for the report of the Fund and the Bank in response to the Rio Resolution in order to take a decision about supplementary financing, because I understand that the Rio resolution looks at this problem from the point of view of commodity agreements and buffer stocks. As I said before, commodity agreements and buffer stocks are not only compatible but will complement supplementary financing.

Trade relations among developing countries is another point of crystallization of paramount importance. Here, Mr. President, I am afraid that we are reaching a deadlock. A matter that appeared so clear and so mature is encountering considerable obstacles. On the one hand, the developing countries have expressed their views on this question. But as I stressed already on another occasion, it would be very essential that the future intentions of these countries be stated in a more formal manner. On the other hand, there is a draft declaration of support for the developing countries' efforts which has been submitted by the market economy countries to this Conference in response to the request of the developing countries. Until now, it has appeared that it is not possible to modify this text. Yet, with respect to any original proposal presented to this Conference, it should be possible to consider improvements if one is to arrive at proper agreement, and I therefore expect that elements of flexibility will be introduced in this, as well as in the other aspects relating to developing countries, in order to arrive at a positive result.

In relation to trade with socialist countries, there has been a very useful discussion and I read with great interest the draft resolution that the socialist countries have presented. It deals, on the one hand with problems of East-West trade and, on the other, with problems of trade between the socialist and the developing countries. The two matters are very closely intertwined. It is very important for developing countries that East-West trade relations improve; the impact of this improvement will be felt from many points of view and I hope that the socialist countries will wish to present at this Conference, as they did at the end of the First Conference, some quantitative targets for their trade with developing countries in relation to commodities and industrial products, subject to the possibility of effectively trading with developing countries, that is to say of having reciprocal trade.

In the Fourth Committee, dealing with invisibles, it is true that some advance has been made in certain aspects but there are conflicting views on others. It is to be hoped that as a result of intensive negotiation in the next few days, concrete agreements will be reached.

Mr. President, when I drafted my own report to this Conference, I had the hope that we would be able to formulate here the main elements of a real and concrete global strategy for development. It was, perhaps, surprising that, having expressed such conviction on the need for a global strategy, I then remained silent on it during a great part of this Conference. The explanation is very simple, Mr. President. When I saw the difficulties in advancing in a positive way in relation to the points of crystallization, I was not willing to run the risk of appearing to advocate a global rhetorical solution without concrete measures. But that does not mean to say that I have lost sight of this. Quite on the contrary. But I must insist on this elementary fact: no global strategy is possible without some fundamental solutions based on convergent measures by the developed and developing countries. I put emphasis on the two terms, developing and developed, and in relation to the first should like to repeat that I do not see any real possibility of accelerating the rate of growth of developing countries without fundamental reforms on their economic and social structures and attitudes and without discipline in their development planning. I do expect that substantive progress in the fields

that I have mentioned will enable a systematic preparation of the convergent measures that are required. We should bear in mind, in this connexion, that the General Assembly of the United Nations expects from this Conference a contribution to its own preparations of the next development decade.

This Conference, Sir, has a tremendous responsibility. A tremendous responsibility commensurate with the urgency and the dimension of the problems of development. We have to recognize that UNCTAD has not been as yet an effective institutional machinery consistent with its purposes. Will UNCTAD continue to be a mechanism absorbing aspirations and producing frustrations? Or will it become an effective organ of the United Nations which not only acts as a forum for debate, but also as a practical instrument of action? It is up to you, distinguished delegates, to decide.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP

Date Mar. 14, 1968

TO -	Name	Room No.
1	Mr. Sarma	
2		
3		
4		

FOR -

<input type="checkbox"/>	Action	<input type="checkbox"/>	Initialing
<input type="checkbox"/>	Approval	<input type="checkbox"/>	Preparing Reply
<input type="checkbox"/>	Comment	<input type="checkbox"/>	Previous Papers
<input type="checkbox"/>	Filing	<input type="checkbox"/>	Noting and Returning
<input type="checkbox"/>	Full Report	<input type="checkbox"/>	Recommendation
<input type="checkbox"/>	Information	<input type="checkbox"/>	Signature

REMARKS

AK asks me to tell you that he has not sent copies to the others. He thinks you may wish to show them the copy yourself.

FROM -

Jeannette Wawrik

c/o Ashoka Hotel, New Delhi, India

Letter No. 78

March 14, 1968

Dear Dick:

I refer to my letter No. 71 on Prebisch's statement to the Plenary.

Sarma is of the opinion that I misrepresented his report, which was enclosed with that letter.

This was certainly not my intention and I would like to emphasize that Sarma has made good reports all to the best of his knowledge and giving an accurate picture of happenings in the meetings. It might, perhaps, have been a better idea to have sent you in a separate letter the information (last paragraph of page one) which I had collected from other delegates who were in the Plenary hall when Prebisch made his statement.

In any case, I would not like to create a misunderstanding. There have been enough already without this incident, not by the fault of Sarma. Therefore, I would like to ask you to eliminate the fourth paragraph of my letter, 71 and treat it as independent information.

In the meantime, we have received the text of the statement by Prebisch, which I enclose (TD/79). Pages 3 to 5 deal especially with the subject of Supplementary Finance.

With kind regards,

Sincerely yours,

Arthur Karasz

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

cc: Mr. Sarma ✓

AK/jlw

OFFICE MEMORANDUM

New Delhi.

TO: Mr. Irving S. Friedman

DATE: March 8, 1968.

FROM: N. A. Sarma and Bimal Jalan

SUBJECT: UNCTAD II : Committee discussions on Supplementary Finance
.....

There were four meetings of the Third Committee on Supplementary Financial Measures from March 1, 1968 to March 6, 1968. A few more meetings were planned, but the Chairman, Mr. Everts (of the Netherlands) thought that discussion and negotiations between various groups could be more effectively pursued in the so-called "contact groups", and that the debate in the Committee should be confined to general statements by the representatives of various delegations. A record of the daily Minutes of these discussions is enclosed.

Statements were made by a number of developed and developing countries - among them Ceylon, Argentina (on behalf of all Latin American countries), India, Nigeria, Uganda, the United States, the United Kingdom, France, Germany, Sweden (on behalf of the Nordic countries), the Netherlands and Japan. Earlier Mr. Mermolja, the Chairman of the Intergovernmental Group had made a statement introducing the Report of the Group to the Committee, identifying the area of agreement and disagreement, and hoping that it would be possible to implement the scheme in the not too distant future.

The developing countries (with the exception of Cuba and Cameroon) gave their strong endorsement in principle to a scheme for Supplementary Financial Measures along the lines of the joint statement of the developing countries made at the intergovernmental group. The general line taken by the developing countries was not unexpected; though the strong and unequivocal support given by India, and by Argentina on behalf of the Latin American countries, would have come as a surprise to some.

The developed countries also took familiar positions - the United States, Germany, France, Australia, New Zealand, Japan and Belgium could not agree to the idea of an endorsement in principle of the Bank Staff Scheme; among these France, Australia, New Zealand, Belgium, and perhaps also Japan, were against the principle of Supplementary Finance itself and their reservations against the Bank Staff Scheme

(continued .. 2)

could as easily have been directed against the basic premises of the UNCTAD Resolution A.IV.18. France and Australia clearly stated this. The United States' statement was somewhat surprising for the vehemence with which it was expressed. While reiterating a number of times their acceptance of the principle of the Resolution A.IV.18 and their appreciation of the work of the Bank Staff, the United States, more or less, ruled out the Bank Staff Scheme as a feasible solution to the problem, and suggested that the intergovernmental group be re-convened to consider certain other alternatives. Sweden (speaking also on behalf of Denmark, Finland and Norway), the Netherlands and Switzerland, on the other hand, gave their support to the principles of the Bank Staff Scheme. Canada was also favourably inclined, though it sought answers to some unresolved questions before it could commit itself to the scheme as formulated at present. The United Kingdom, not unexpectedly, succeeded in leaving everybody guessing - "as one of the original sponsors it was for the scheme; but ..., if, however".

Amidst these disagreements and varying views, there was nonetheless one point on which there seemed to be - for want of a better phrase - a "general concensus". This was that a scheme for Supplementary Finance would come into existence by 1970. The developing countries and other supporters of the Bank Staff Scheme wanted this particular scheme to be "The Scheme" which would be implemented then (with some modifications, may be). The dissenters wanted an alternative (with some features of the Bank Staff Scheme, may be). For some among the latter group, the search for an alternative scheme was, of course, a useful device by which the proposal for Supplementary Finance could be kept at bay gracefully - and indefinitely.

There also seemed to be general agreement that the intergovernmental group should be re-convened. Germany suggested that its membership should be increased in order to give wider representation. The difference between various groups of countries was on what the terms of reference of this Group should be. Those who supported the Bank Staff Scheme felt that the Group should be re-convened to resolve the few issues which yet remained to be further discussed, and draft a set of Articles and Rules on the basis of which final negotiations could take place. They, therefore, wanted the present Conference to endorse the Bank Staff Scheme in principle, provide broad guidelines to the intergovernmental group as a basis for its discussion, and indicate a definite date by which the Scheme should come into operation. Those who could not agree with the essential elements of the Bank Staff Scheme wanted the Conference not to take any action on this scheme, but re-convene the Group to consider afresh all the aspects of the Scheme as well as other possible alternatives.

(continued .. 3)

The possibility of an Agency, other than the IDA, administering the Scheme was not mentioned. It was assumed that, if the Scheme came into existence, the IDA will be the Agency. However, among the supporters of the Scheme the prevailing view seemed to be that the actual negotiations on the Scheme would be carried out within the framework of the UNCTAD by the Trade and Development Board. The Board of Governors of the IDA would be requested to approve and adopt the Scheme, once the Draft Articles of Agreement governing the operation of the Scheme were agreed to among member governments of the UNCTAD.

In the Committee discussions, a lot was made by some developed countries, particularly the United Kingdom, of the relationship between commodity stabilization measures and supplementary finance. Numerous references were made to the Study on Commodity Stabilization now being undertaken by the Fund and the Bank in response to the Rio Resolution. They wanted to have an indication of the scope and content of this Study as well as the date by which this would be ready since, in their view, this would clearly affect the outcome of discussions on Supplementary Finance. The developing countries and some others, while no less eager or interested in the Bank-Fund Study, emphasized that there was no conflict between measures to stabilize commodity prices and Supplementary Finance - in fact they would reinforce each other, and that action on supplementary finance should not be postponed any longer. It was surprising that the U.S. and the U.K. which are not particularly noted for their championship of commodity stabilization measures should have evinced such great interest in these measures in the context of Supplementary Finance.

Invited by the Chairman, Mr. Sarma, on behalf of the Bank Staff, and Mr. Jones for the Fund Staff, made brief statements on the Bank-Fund Commodity Studies to the effect that at this time it was not possible to indicate precisely when these would be completed. Nor was it possible at this time to give an idea of the scope of this Study beyond what was suggested in the Rio Resolution. The Board of Governors had requested the Staff to complete this Study, if possible, by the time of the next Annual Meeting.

Later in the Committee discussion, in response to a request by Ceylon from the floor, and at the suggestion of the Chairman, Mr. Sarma made statements on the relative importance of export shortfalls and other causes of disruption, and on the relationship between commodity stabilization measures and Supplementary Financial Measures. He stated that in the view of the Bank Staff, there was no conflict between Supplementary Finance and Commodity Stabilization.

(continued .. 4)

Now that the Committee discussions are over, the discussion on Supplementary Finance, as on other issues, will be carried on in the Contact Groups which are likely to conclude their work by March 15. It is not yet clear what, if anything, will emerge; though from corridor conversation, one gathers that the mood of cautious hope among the developing countries has now given way to frustration and even anger. So far the developed countries have not been willing to make concessions on any issue - there is now a stalemate in most Committees. The hope for something fruitful to emerge out of this Conference now lies, not in Committees, but in the political dialogue between the developed and the developing, which is likely to take place during the last ten days of the Conference.

cc: Mr. Karasz (2)
Mr. de Fontenay

UNCTAD II : COMMITTEE III

March 6, 1968 (9.30 a.m.)

Canada, France, Syria, New Zealand, Netherlands, Switzerland and Japan made general statements on Supplementary Finance. Syria, Netherlands and Switzerland gave support to a scheme for Supplementary Finance essentially along the lines of the Bank Staff Scheme. Canada agreed with the principle of Supplementary Finance but indicated that it was not yet in a position to commit itself to a particular scheme at this time. France, New Zealand and Japan expressed, in different degrees, not only their reservations against the Bank Staff Scheme but also against the principle of Supplementary Finance itself. In response to a request by Ceylon from the floor, Mr. Sarma on behalf of the Bank Staff, made brief statements on the question of the relative importance of export shortfalls and other causes of disruption, and on the relationship between commodity stabilization and Supplementary Finance.

Canada regarded the Bank Staff Scheme as a valuable contribution not only to the problem of unexpected export shortfalls, but also to the rationalization of the entire aid-giving process itself. However, a number of questions relating to some of the essential aspects were yet unresolved and remained to be dealt with before it could commit itself to the scheme suggested by the Bank Staff. Since there seemed to be a general agreement that the scheme for Supplementary Finance will not come into existence before 1970, the intervening period could fruitfully be used in clarifying some of these unresolved issues within the framework of the inter-governmental group. However, Canada firmly believed that Supplementary Finance and Compensatory Finance were complimentary to each other. Similarly, though no final answer could be given to the question of priority between Supplementary Financing and basic financing, it was felt Supplementary Finance would help the flow of basic financing.

France, said that at the First Conference it had made clear that its support for the Resolution A.IV.18 did not imply an acceptance of the principle of Supplementary Finance. The real solution, in its opinion, lay in the organization of commodity markets. Supplementary Finance was not only a palliative, but is also likely to delay the search for more real solutions to the problem of stabilization of commodity prices.

(continued .. 2)

Syria expressed complete accord with the majority view of the inter-governmental group on the Bank Staff Scheme. Neither commodity agreements nor the IMF Compensatory Financing Facility was a substitute for Supplementary Finance. Syria was, however, concerned with the content of policy understanding in the Bank Staff Scheme. It felt that as envisaged now, such policy understanding was bound to infringe upon the sovereignty of developing countries. The agreed policy understanding, in its view, should be very general in character and should not contain any commitments by developing countries to specific actions in the economic policy field.

As a country dependent on primary commodities for 90% of its export earnings, New Zealand recognised the importance of the problem of unexpected shortfalls and the urgent need to reach sound long-term solutions. However, in its opinion, much more important than Supplementary Finance, is the long-term access to world markets at remunerative prices.

The Netherlands felt that much work had been done on the scheme and that it had great sympathy with the approach adopted in the Bank Staff Scheme, especially the idea of a prior policy understanding. The fact that the developing countries found it possible to support this notion of policy understanding was most important; however, serious doubts have been expressed by some delegations about the feasibility of this Scheme and the Netherlands, therefore, would not oppose the suggestion to re-convene and broaden the terms of reference of the inter-governmental group. In doing so, the Netherlands wanted to make it clear that undue delay in implementing the scheme should be avoided and that the scheme should come into operation by early 1970.

Switzerland said that the Scheme for Supplementary Finance was necessary particularly in view of the slow progress in efforts to stabilize commodity prices. This should be integrated into existing multilateral machinery. It felt that the report of the inter-governmental group contained the elements on which a balanced solution could be found to the problem under consideration and hoped that the Conference would ask this Group to continue its work and produce a scheme ready for implementation by a definite date.

Japan expressed serious reservations against the Bank Staff Scheme, especially with regard to the feasibility of export projections and also policy understandings.

It generally agreed with the views expressed by the representative of Germany and others who had reserved their decision on this scheme.

At the end of the general debate on Supplementary Finance, the representative of Ceylon requested the Bank's representative, if possible, to clarify two of the technical points which had been raised by many delegates. These related to the question of the relative importance of export shortfalls and other causes of disruption, and the relationship between commodity stabilization and Supplementary Financial Measures. Invited by the Chairman, Mr. Sarma made prepared statements on these two subjects.

The Meeting concluded with a statement by Mr. Dell of the UNCTAD Secretariat, on progress achieved in implementing the recommendations of Resolution A.IV.17 on Compensatory Financial facility, the next item on the agenda of the Committee.

N. A. Sarma

B. N. Jalan

cc: Mr. Karasz (2)
Mr. de Fontenay

March 5, 1968 (10.30 a.m.)

General statements on Supplementary Finance were made today by Sweden, Ukrainian S.S.R., the U.K., Republic of China, Germany, Cameroon, Columbia, Australia and Belgium. Sweden and China gave strong endorsement in principle to a scheme for Supplementary Financing along the lines suggested by the Bank ~~Staff~~ Study. The Ukrainian S.S.R., Germany, Cameroon, Columbia, Australia and Belgium on the other hand felt that sufficient progress had not been made so far in the discussions of inter-governmental group to permit even an endorsement in principle of the essential elements of the Bank Staff Scheme. The position of the U.K. was ambivalent.

Sweden, speaking also on behalf of Denmark, Finland and Norway, made a forthright statement supporting the conclusions of the majority of the inter-governmental group which had expressed support for the scheme. There is certainly a link between a scheme for market organization and supplementary finance but Sweden felt that the objectives of Resolution A.IV.18 cannot be met by a scheme for commodity stabilization since the latter cannot cover all commodities and because Supplementary Finance takes into account not only prices but also the volume. Similarly, the IMF Compensatory Financing Scheme could not be considered an alternative to a scheme for Supplementary Finance. The former provided short-term balance-of-payments support. A scheme for Supplementary Finance will not only prevent disruption of development programs but will also provide for a more effective use of planning technique in development through ~~the~~ mechanism of policy understandings. The proposal for some international action in this field had been discussed since 1960, and the Conference should take positive action based on the majority view. There were, of course, a few questions which were still outstanding but these could be easily resolved within the framework of the inter-governmental group. The Nordic countries could not agree to an indeterminate discussion of technical issues and must insist on a definite timetable for action in this regard.

The Ukrainian S.S.R. said that the commodity problem was a legacy of many years of colonial misuse of the presently under-developed countries and a Scheme for Supplementary Finance could not really solve the problem which resulted from an unequal relationship between developing and the Western capitalist countries.

The U.K. said that the idea of Supplementary Finance was basically sound and hoped that agreement could be

reached in principle in the near future. However, doubts had been expressed by a number of delegations on the feasibility of the scheme; it was, therefore, desirable that further consideration be given to these aspects before action was taken. Among these questions were: the feasibility of policy understanding, the cost estimates of the scheme, the relationship between the IMF Compensatory Financing and the Bank Staff Scheme, the relative importance of export shortfalls, and whether this particular use was the most effective use of any additional development finance which might be forthcoming.

The U.K. felt that there was need for something simpler than the Bank Staff Scheme. As regards future action, it suggested that the Conference should arrange for the work on the scheme to be carried forward expeditiously, and re-convene the inter-governmental group. It was also essential to know what the conclusions of the Bank Fund Commodity Study were likely to be.

China made a statement supporting the Bank Staff Scheme along the lines of the previous LDC's statements.

Germany said that it had important reservations to the Bank Staff Scheme, in particular, its interpretation of the concept of reasonable expectations. The Scheme was too complicated and elaborate and there was need for a much simpler scheme to meet Resolution A.IV.18, which Germany had supported. The time had now come to examine some of the alternative solutions as well as to consider further the principle of Supplementary Finance itself. There were four questions which were particularly important: 1) What is the causal relationship between export shortfalls and disruption of development programs; indeed, what is the relative importance of export shortfalls? 2) What is the relationship between Compensatory Finance and Supplementary Finance? 3) Could reasonable expectations be defined along the lines of IMF Compensatory Financing Scheme? 4) What is the relationship between Commodity Study and Supplementary Finance?

As regards future work, Germany suggested that the inter-governmental group should be asked to continue this work; it should not limit itself to the scheme for Supplementary Finance as suggested by the Bank Staff but should also examine modifications and alternatives. In order to give wider representation, the number of countries in the group should be enlarged.

The representative of the Cameroon said that the proposal under consideration was linked to a larger problem - the organization of markets and industrialization. Supple-

mentary finance could be considered as a provisional measure, not as a substitute for commodity arrangements; a simpler approach was also indicated.

Columbia made a lengthy statement in which it seemed to share the concern and the doubts expressed by developed countries. If some spokesmen of developing countries gave the impression that Supplementary Finance involved gifts from developed countries to the LDC's, the representative of Columbia categorically stated that it was not so. In fact, the loan assistance need not necessarily be on concessional terms. What was important was to establish a scheme with a fixed fund of \$400 million a year, and this should not involve the setting up of a new agency however.

Australia appreciated the concern of LDC's with respect to their commodity problems; however, in their view, Supplementary Finance was not the solution. They always had reservations about the principle of Supplementary Finance, and had difficulties with certain specific features of the Bank Staff Scheme. Australia shared the doubts expressed by the U.S.A. and Germany on the Bank Staff Scheme, the scheme was too elaborate and ambitious. The question also arose: Why the scheme should be confined to unexpected shortfalls in export earnings and not cover other items in the balance-of-payments?

Belgium favoured continuance of the inter-governmental group to consider further all aspects of the proposal. In their view, the relationship of Supplementary Finance to Commodity Stabilization arrangements should be considered carefully, in the light of the Bank-Fund studies. There should also be a clear understanding of Supplementary Finance in relation to the competence and prerogatives of the Fund. Finally, any Supplementary Finance Scheme should be administered in a fairly simple fashion.

N. A. Sarma

N. A. Sarma

Bimal Jalan *Bmj*

cc: Mr. Karasz (2)
Mr. de Fontenay

March 4, 1968 (3.00 p.m.)

Discussions on Supplementary Finance continued today. Nigeria, Turkey, Cuba, Peru, Uganda and the U.S. made general statements. All, except Cuba and the U.S., supported the Bank Staff Scheme in its essential elements, and urged the Conference to agree in principle to a scheme of Supplementary Financing along the lines suggested by the Bank Staff Study.

Nigeria said that its position with regard to the scheme was essentially the same as Ceylon's and it, like the other developing countries that had spoken, fully supported the joint statement of the LDC's made at the final session of the inter-governmental group. However, there were a few questions for further consideration such as: 1) What is the relationship between policy understanding and the availability of basic financing? 2) If the scheme was to be administered by the Bank Group, how do we provide for the inclusion of centrally planned economies?

Turkey also endorsed the essential elements of the Bank Staff Scheme. It emphasized the importance of including Invisibles in determining the export earnings of countries. Also, unless there are clear commitments with regard to basic financing, the Supplementary Financing Scheme by itself cannot enable the country to implement its development programs.

Cuba disassociated itself with the Latin American position as expressed by Argentina and said that Supplementary Financing at best was only a palliative and at worst could be dangerous to the economic growth in the developing countries, since the IBRD would be the administrator of this scheme under the leadership of Mr. McNamara, the former Secretary of Defence of the United States.

Peru, fully supporting the general Latin American position, bluntly asked the developed countries whether they had the political will to extend any new measure of support to the developing countries, whether it was Supplementary Financing or Preferences or Commodity Stabilization. Peru felt that the developed countries were not cooperating for a successful conclusion of the Conference.

Uganda fully associated itself with the general LDC's position and asked for an immediate implementation of the UNCTAD Resolution A.IV.18. Supplementary Finance and Market Organization would reinforce each other, and the scheme for Supplementary Financing should be adopted at the next meeting

of the Board of Governors of the IDA. It suggested that the Conference should adopt March 31, 1969 as the deadline for approval of the amended articles of agreement of IDA so that the Scheme could come into existence in late 1969 or early 1970. In order to keep Supplementary Financing separate from basic financing, there should be a Special Fund separate from the General Fund of the IDA. Similarly, any country that wants to participate in the Supplementary Financing Scheme but was not a member of IBRD/IDA, could be allowed to become an associate member of IDA. If there was any conflict between the agency and the country, the Managing Director of IMF or the Head of any other international financial institution could be asked to arbitrate the dispute.

The U.S. felt that although the inter-governmental group had done a good job, it had not done all that was necessary to enable it to reach a final decision about the scheme at this time. There were two questions of considerable importance which were not considered by the group. These were: (i) the relative importance of protracted shortfalls in export receipts and other causes of disruption and (ii) whether there were alternative ways, i.e. alternative to the scheme put forward by the Bank Staff in dealing with this problem.

The U.S. fully recognized that protracted unforeseen shortfalls of export earnings could have a seriously disruptive effect on the financing of development, and said that there should be no doubt that the U.S. accepted the principle of an international agreement to prevent or reduce the ill effects of disruption caused by these shortfalls. However, it had several fairly fundamental reservations about the scheme of Supplementary Financing set forth in the IBRD Staff Study. These were: 1) The scheme was dependent on the assumption of a firm commitment of basic financing by the developed countries. This was not a realistic assumption; 2) This scheme gives no reason to believe that 1.5 to 2 billion dollars over a five-year period would be sufficient to underwrite development plans with respect to potential disruption from export shortfalls; 3) The requirements of detailed agreements about development programs, policies and so on, go far beyond those now made. Export projections over a 4 to 6-year period are not easy.

Having stated these doubts about the IBRD Staff Study, the U.S. indicated its willingness to devise an alternative scheme based on the principles of Resolution A.IV.16. In formulating such a scheme the U.S. would also suggest that full account be taken of the Bank Fund Study on Commodity Stabilization which in all probability will be ready by September this year. In the U.S. view, in a satisfactory scheme, serving the objectives of the UNCTAD Resolution,

reasonable expectations should be fairly loosely defined and should be frequently revised; in fact, both expectations and shortfalls could be speedily determined after the event

The U.S. suggested that the inter-governmental group should, with its Terms of Reference appropriately amended, be invited to examine and report on the feasibility of this alternative approach to the problems. It should also look into other alternatives that might be put forward.

N. A. Sarma

N. A. Sarma

Bimal Jalan

UNCTAD II : COMMITTEE III

March 1, 1968

The discussions on the Supplementary Financial Measures began today in Committee III. Ceylon, Argentina, India and Malaysia made general statements. All of them endorsed the essential elements of Bank Staff Scheme and urged an early agreement in principle in the Committee.

Ceylon suggested that an agreement on Supplementary Financial Measures was necessary concurrently with a likely agreement on preferences; many of the less developed countries were unlikely to gain much from the later concession. Progress in the Commodity field was likely to be extremely slow. This Scheme was compatible with commodity agreements and organization of markets.

The Committee and the Conference could agree on the essential ingredients of Supplementary Finance Scheme as proposed by the Bank Staff. The Conference should then request the inter-governmental group to convene immediately and proceed with the solution of unresolved questions pertaining to the scheme, and on the basis of the broad guidelines adopted by the Conference, draft the scheme to be considered at the 7th Meeting of the Trade and Development Board. The agreed scheme could then be sent for appropriate action to the Board of Governors of the World Bank which would presumably be the Agency administering the Scheme. If all went well, the Scheme should be operable in 1970. Actual disbursements would, however, being somewhat later.

Argentina, speaking on behalf of all Latin American countries, expressed full support of the countries to the joint statement of the developing countries made at the last session of the inter-governmental group (which has been circulated as a Conference document) and urged the developed countries to take immediate action on this Scheme. Argentina said that there was a wide measure of agreement on the following points: (a) It is desirable to have a scheme of Supplementary Financial Measures; (b) At present no mechanism of this kind exists; (c) Resources for supplementary Financial Scheme would be additional to basic finance; (d) The Scheme suggested by the Bank Staff was a feasible solution to the problems under consideration.

As such, the Latin American countries would expect the developed countries to support the Scheme for Supplementary Financial Measures, the principle of which had already been

(continued .. 2)

agreed to in the First Conference. Further, the developed countries should also make it known to the Conference when they would want this scheme to begin operations. The Latin American countries expected a definite answer from the developed countries on this item.

Malaysia said that it had placed much hope in Resolution A.IV.18 which was passed at UNCTAD I, and in the excellent study prepared by the Bank Staff in response to this Resolution. It was, however, disappointed at the unwillingness of some developed countries to commit themselves to the scheme. It felt that the Bank Staff Scheme was feasible, and adequate to deal with the problem under consideration. It therefore suggested that the Executive Directors of the World Bank should be invited to draw the final report of the Scheme for Supplementary Financial Measures to be submitted to their Board of Governors as soon as possible.

India (Ambassador Swaminathan) said that the stand of the developing countries on Supplementary Financial Measures, with which India fully agreed, was expressed in the joint statement of the LDC's. The Scheme filled an important gap in international machinery; this was compatible with the Scheme for Market Organization, since if a scheme for Market Organization came into existence this would be taken into consideration in making the export projections by the developing countries. The developing countries had further agreed in the inter-governmental group that the scheme should not be open-ended and that there should be some provision for rationing. So far as policy understanding is concerned, the Bank, the I.M.F. and other international financial institutions had already had considerable experience and a workable solution consistent with national sovereignty could be found.

India appealed that the Conference should make a unanimous declaration in favour of the Supplementary Financial Measures. Such a scheme should be based on the main elements of the Bank Staff Scheme. It should be finalized within the machinery of the UNCTAD, and should come into existence by 1970.

Before the general statements, on Supplementary Financial Measures, the U.K. had requested the Bank and the Fund representatives to make statements on the progress already made on the Bank-Fund Commodity Study, and the precise date when this Study was expected to be completed.

Tanzania, Ceylon and other delegations also felt that it would be useful for the Committee to have an idea of the time when this study was expected to be completed. In response to the suggestion by the Chairman that the Bank and the Fund should make such a statement, Mr. Sarma, on behalf of the Bank, and Mr. Jones, on behalf of the Fund, indicated to the Committee the nature of the Study being undertaken, and also the wish of the Board of Governors that this Study should be completed, if possible, by the time of the next Annual Meeting. They, however, pointed out that it was too early to say precisely when this Study would be completed. Nor was it possible at this time, to give an idea of the scope of this Study beyond what was suggested in the resolution. There was some dissatisfaction expressed by the U.K., Bolivia and Ceylon at the fact that the Bank and the Fund could not give a more precise answer to the question of timetable of the Study.

The Chairman suggested that the Bank and the Fund representatives let the Committee know of anything further they could find out in this regard from their Head Quarters.

B. N. Jalan

cc: Mr. Karasz (2)
Mr. Sarma
Mr de Fontenay

FORM NO. 75
(2-60)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

No. 49

INTERNATIONAL FINANCE
CORPORATION

INTERNATIONAL DEVELOPMENT
ASSOCIATION

ROUTING SLIP

Date
March 11

NAME

ROOM NO.

Mr Friedman

1223

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

Comment

Per Our Conversation

Full Report

Recommendation

Information

Signature

Initial

Send On

REMARKS

Per your conversation of this morning
with Dick Demuth.

From


Shirley Boskey

Complete

Interim Report on UNCTAD II, New Delhi
February 1 - 29, 1968

March 5 - 1968
Haran

1. Plenary

The Conference was inaugurated on February 1, 1968, by Mrs. Indira Gandhi, the Prime Minister of India, in the newly-built Assembly Hall of the Ashoka Hotel, New Delhi. Thereafter, the Conference moved its Headquarters to Vigyan Bhavan. It elected as its President, the representative of the host country, Mr. Dinesh Singh, Minister of Commerce. The plenary sessions allowed ministers and other high officials of all the Member countries, as well as leaders of international, intergovernmental and certain non-governmental organizations, to state their policy views.

Dr. Raul Prebisch

The Secretary-General of UNCTAD submitted his report to the Conference on February 2. His central theme was ~~of~~ the need for the elaboration of a global strategy of development. The Secretary-General of the United Nations was unable to attend the inauguration of the Conference due to the events in North Korea. He spoke on February 9. In his address, he pointed out that the lack of progress since UNCTAD I was particularly difficult to accept in the light of the success which accompanied the negotiations connected with the Kennedy Round and the International Monetary Reform. The reason for this failure was that the developed world continued to regard its economic relationship with the LDC's as a one-sided affair in which concessions are granted and not received, although it could be said that both in the fields of trade and aid the developed countries benefited from their cooperation.

both

Executive Director of the Bank

Mr. Woods addressed the Conference on that same day, February 9. [The text of his speech was circulated to the ~~Board on~~] The representative of the International Monetary Fund spoke on February 13. (Statement circulated ... ?). The Conference also heard statements by the United Nations Under-Secretary for Economic Affairs, the Director-General of FAO, the representatives of UNDP, OECD, EEC, the regional commissions of the United Nations, the regional development banks and various intergovernmental organizations.

Under cover of
Sec M
68-34
dated
February
9, 1968.

The ministers representing the developing countries elaborated on one point or another of the Algiers Charter under its three main headings: Commodity Problems and Policies, Exports of Manufactures, and Development Finance. They mostly stressed the importance of buffer stock financing, the introduction of generalized preferences and the need for more aid, in particular through multilateral institutions. They mostly supported Supplementary Finance. Some advocated that tied aid should be repaid with tied exports. The creation of several new funds was proposed: a diversification fund "from existing Bank resources" (Yugoslavia), an interest-equalization fund (Israel), a research fund for primary commodities (India). Finally, the role of private investment was mentioned by some speakers.

representatives of the

Speakers on the ministerial level of the more important donor countries were Messrs. Debré (France), Schiller (Germany), Zagari (Italy), Sina (Japan), Lange (Sweden), Jolles (Switzerland), Grosland (United Kingdom) and Rostow (US). In addition to general statements on problems of development and their countries' contributions to a solution of those problems in the fields of aid and trade, the developed countries dealt also with specific issues of particular interest to the Conference as follows:

(a) Commodities. This is one of the main items of the Conference. References to the joint Bank-Fund study commissioned at the Rio meeting were made by several ministers.

(b) Preferences. All donors concurred in the agreement reached within the OECD on the principle of preferential treatment of exports of manufactured and semi-manufactured goods from developing countries, although it was pointed out that there were problems such as the future of existing preferences, product coverage, and exceptions and safeguard clauses, which remained to be settled.

(c) Financing. While the stagnation of the aid effort was a central theme of the developing world, some donors, like Germany, and Sweden, and the Netherlands, promised some increase in their future contributions.

Representatives of the (SFM)

A great majority of the donors announced their intention to increase their contributions to IDA resources by sixty percent. Most donors made reference to supplementary financial measures, generally in more or less constructive terms, while recognizing that there are still problems and that further discussions will be needed. France, Japan and the US did not refer to SFM at all in plenary. The references to aid matters by some, in particular by Sweden, Canada and the Netherlands, were ~~forthcoming~~. Several references were made to international monetary problems, including the introduction of SDR's.

The statements by the socialist countries were on familiar lines. They mentioned the need for the elimination of restrictions on East-West trade and the admission of countries such as East Germany, North Korea, North Vietnam and Mainland China to UNCTAD. Soviet Russia pledged to continue its policy of credits extended to the developing countries. It was willing to conclude commodity stabilization agreements and explore other forms of cooperation provided that the developing nations were ready to grant socialist countries conditions no less favourable than those granted to other countries.

Political problems arose in the course of the Plenary in relation with Cuba, Israel and South Africa.

2. End February position

It can be said that at the mid-way point of the Conference, no tangible progress has been recorded except for consultations on shipping. In general the proceedings of all Committees and Working Groups consisted of general statements of delegates of their individual government's views. These general statements did not carry the subject matter further than the position at the start of the Conference and proved very time-consuming. The developing countries based their statements essentially on the proposals contained in the Algiers Charter. The developed countries generally did not appear to regard the

Plenary

extending

For the most part,

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The U.S.S.R.

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Algiers Charter as being sufficiently realistic ^a starting point for negotiations. To accelerate reconciliation on a wide variety of issues, so-called "Contact Groups" were set up. Even these Groups are fairly large, owing to the need for balanced geographic representation. Apart from shipping, no progress has been made so far in any of these Contact Groups. Even the Contact Group of Committee II on preferences, which was the earliest to be set up, seems to have reached a stalemate. It is evident that the real work of the Conference still remains to be done. The first

3. Organization of the Conference

President: Dinesh Singh, India, assisted by 27 Vice Presidents
Rapporteur: Jose Antonio Encinas del Pando, Peru.

Committee I (Commodity Problems and Policies):

Chairman: Djin Monar Gueye, Senegal
Vice-Chairman: Vladmimir Rudolf, Czechoslovakia
Rapporteur: Yeo Beng Poh, Malaysia

Committee II (Expansion and diversification of exports of manufactures and semi-manufactures of developing countries):

Chairman: K.W. Ryan, Australia
Vice-Chairman: Christopher Musoke, Uganda
Rapporteur: Akhtar Mahmood, Pakistan

Committee III (Growth, development finance, and aid):

Chairman: Jacob Everts, Netherlands
Vice-Chairman: Lal Jayawardena, Ceylon
Rapporteur: Jose Antonio Palacios, Guatemala

Committee IV (Problems of developing countries in regard to invisibles including shipping):

Chairman: Luiz Paulo Lindenberg Sette, Brazil
Vice-Chairman: Krzysztof Dabrowski, Poland
Rapporteur: O. Heyman, Sweden

Committee V (Trends and problems in world trade and development):

Chairman: Janos Nyerges, Hungary
Vice-Chairman: Erich Schmid, Austria
Rapporteur: Mohamed Zaki Shafai, United Arab Republic

Working Group I: (World Food Problem and Transfer of Technology)

Chairman: Mr. Domingo Santa Maria, (Chile)

Vice Chairman: Mr. Petre Tanasie, (Romania)

Rapporteurs: Mr. Jens Kristensen (Denmark)

Working Group II: (Trade Expansion and Economic Integration among Developing Countries and Special Measures for the Least Developed Countries)

Chairman: Mr. M.H.A. Onitiri (Nigeria)

Vice Chairman: Mr. R. Navaratnam (Malaysia)

Rapporteurs: Mr. H.D. Laloux (Belgium)

Working Group III: (Special Problems of the Land-Locked Countries)

Chairman: Mr. Mohammad Ali Aghassi (Iran)

Vice Chairman: Mr. Vladimir Pavera (Czechoslovakia)

Rapporteurs: Mr. Albert Mohate (Lesotho)

4. Committee I

Committee I was set up to consider agenda item ^{the} ~~204~~ "Commodity Problems and Policies" with the following sub-items:

- (a) General discussion on the main elements of commodity policy;
- (b) Basic principles and guidelines for pricing policy designed to achieve the highest possible receipts from export of primary commodities; operation and financing of buffer stocks;
- (c) Role and financing of diversification programmes; problems arising from the development of synthetics and substitutes;
- (d) Programme for liberalization and expansion of trade in commodities of interest to developed countries.

As of this date, the Committee has completed the discussion of Items (a) to (c) of its agenda. It has also set up a 23-member Contact Group consisting of representatives from the developed, developing and socialist countries to start negotiations on possible points of agreement.

In the general discussion, suggestions by the Secretariat concerning the general supervisory role of UNCTAD in all commodity matters drew comments from some developed member countries. While recognizing that UNCTAD was a proper forum for discussion of all commodity matters, they stressed the very useful role played by the FAO study groups and by the Commodity Councils and questioned the need for UNCTAD to exert control over informal commodity agreements such as those reached by the FAO study groups on jute and hard fibres. Such informal agreements had their own advantages over more formal approaches and could be extended to other products. There was, however, general agreement that an annual review of progress in the field of commodity stabilization and other arrangements should take place in, and be organized by, UNCTAD. ^A ~~The idea proposed by the Secretariat of establishing~~ ^{proposal to} ~~the~~ a set of principles and guidelines for commodity agreements was opposed by developed countries and was not considered ~~as~~ a priority subject by developing countries.

Almost all speakers expressed regret that the Cocoa Agreement had failed to materialize and requested a prompt resumption of consultations with a view to reconvening the Cocoa Conference at the earliest possible date. A timetable for future discussion on specific commodities is under consideration, and the developing countries have included cocoa, sugar, oilseeds, oils and fats, natural rubber, hard fibres and jute in their draft action program.

Discussion on pricing policy centered around the four points made in the Algiers Charter, ~~namely~~ that "the main objectives of pricing policy should be: (i) elimination of excessive price fluctuations; (ii) the highest possible earnings from the exports of primary products; (iii) maintenance and increase

of the purchasing power of the products exported by developing countries in relation to their imports; and (iv) that developed countries undertake to assist in achieving more stable and higher prices for unprocessed and processed commodities from developing countries by applying adequate domestic taxation policies." While developed countries had no objection in principle to the first two objectives, ^{Some of them (sometimes)} the validity of the third objective, ^{was} ~~was questioned by some of them who warned against~~ ^{the} stabilizing prices at ^{altern of} levels which would discourage consumption or encourage the production of synthetics and substitutes. On the fourth principle, a small number of developed countries stated that they were in favor of steps to liberalize commodity trade but in general their comments were inconclusive.

On buffer stock operations and financing, developing countries recognized that buffer stocks were only one among various techniques of market stabilization. When such a technique was appropriate, ~~then~~ international financial institutions should participate in the prefinancing of buffer stocks. ^{This} point was repeated by each speaker from the Group of "77" with some variants, such as a suggestion that buffer stocks should be financed by grants from the IBRD and the IMF, or ~~the suggestion~~ that the IMF should provide regular financing, ^{for} as well as prefinancing, of buffer stocks. A small number of speakers suggested that consideration ~~should~~ ^{modification} be given to the ~~modification~~ of the statutes of international financial institutions ~~in order~~ to enable them to provide finance directly to buffer stocks agencies. The Chairman of the International Tin Council stated that it would be more effective and more economical to finance buffer stocks through a central international agency.

The great majority of developed countries avoided making reference to the specific role that the Fund could play in the pre-financing of buffer stocks but mentioned the relevance of this matter for the Bank/Fund study. Three representatives took the view that the Conference should withhold judgment on this question until the result^s of the IBFD/Fund commodity study agreed to at Rio last September became available. The U.S.S.R. expressed doubts about the regulatory function of buffer stocks; in their¹⁵ view buffer stocks were only of limited use, and the stress should be laid on long-term bilateral trade agreements¹⁶ giving assurance¹⁶ of access to markets for a known volume of production at defined prices.

Most developing countries emphasized that the managers of buffer stocks should be allowed to intervene, both in the spot and forward markets. While three developed countries were sympathetic to this view, one was opposed, and one considered that the need for such an intervention should be decided on a case-by-case basis.

The idea of a central fund to be created for the financing of existing and future buffer stocks[✓] was opposed by several developed countries. Although ^Tthe creation of a central fund is not included in the Algiers Charter, ^{but} several speakers from developing countries advocated the need for such a scheme, though not in a coordinated manner. Mention was made of an ~~International Bank~~ for buffer stock financing, an international commodity fund to support and stabilize prices and to finance diversification, and an international stabilization fund whose resources would be provided by producers, consumers and international financial institutions.

After ^{concluding} terminating consideration of buffer stocks[✓] operations and financing, and of pricing policy, Committee I started discussion on the problems arising from the competition of synthetics and substitutes. The developing countries repeated the arguments ^{set forth} included in the Algiers Charter and ~~then~~ expounded in the Secretariat document (TD/B/Supp.1). The developed countries took the view that the ^{se} problem^s of ~~competition from synthetics and substitutes~~ ^{were} was largely due to technological progress and that nothing could ^{of} ~~be done~~, nor should be done to stop or to slow down ^{that} technological progress which, to some extent, was also beneficial to developing countries. The solution was to be found in increased productivity, trade promotion and research for new uses of raw materials and in the diversification of production. A proposal by India to create a special fund under the auspices of the UNCTAD, to expand research in the development of new uses for natural products, received wide support from developing countries.

The Committee devoted one meeting to the consideration of the report of the third session of the Study Group on Oilseeds, Oils and Fats, held ^{at headquarters in} in FAO, Rome, from February 12-13, 1968. The report ^{rephrases} describes compensatory arrangements financed by levies or by budgetary funds as ^{or} ~~one of the~~ possible techniques of market stabilization for this group of products.

← The discussion was short and dealt only with procedural matters. The six delegates from developing countries who spoke proposed that UNCTAD should set up an ad hoc UNCTAD body to deal with oilseeds, oils and fats without prejudice to the work to be pursued by the FAO study group itself, ^{However,} but this matter is not yet settled.

With respect to diversification, the developing countries generally followed the suggestion made by the UNCTAD Secretariat that high priority ~~should~~ be given by existing sources of development finance, including the IBRD, to support ng the diversification plans of those countries faced with acute diversification problems. They also favored the ^{went} establishing of specific diversification funds within the framework of an international commodity agreement, as in the case of coffee, and of a central diversification fund. ✓

← ^{re} All developed countries rejected the suggestion of diversification funds, although they supported the principle of including ^{SRL} diversification funds in specific commodity arrangements, as in the case of coffee.

The socialist countries generally supported the ^{Algeria} charter, ~~of Algiers~~, but expressed their preference for long-term bilateral agreements as a solution to commodity problems. They also emphasized trade liberalization and better access to the markets of the developed market-economy countries for exports of all primary producers.

Numerous references were made to the Bank/Fund study commissioned at the 1967 Annual Meetings. Both developing and developed countries expressed the hope that it would contribute to a solution of present commodity problems. France and a number of developing countries asked that the study be transmitted to UNCTAD. In response to invitations from Committees I and III, the Bank and Fund representatives outlined the position regarding the studies on commodity price stabilization following the Rio resolution, with an indication that the staffs were aiming to have reports prepared in time for consideration by the Boards of Governors at the next Annual Meeting. (Statements attached.)

A resolution introduced by France has not yet been considered either in Committee or in the Contact Group. It deals with the Bank/Fund study and with consultations to be initiated with a view to fostering the framing of international arrangements on specific commodities. The text of ^{the} ~~this~~ draft resolution is appended to this report. (See Appendix I.)

5. ~~Working~~ Committee II:

~~The~~ Committee is in charge of agenda items relating to the export of manufactures and semi-manufactures of developing countries to developed countries, (Item II). The Committee's agenda consists of three topics:

- (a) Preferential or free entry of exports of manufactures and semi-manufactures of developing countries to developed countries;
- (b) A program for the liberalization and expansion of trade in manufactures and semi-manufactures of interest to developing countries; and
- (c) Measures for the promotion, expansion and diversification of exports of manufactures and semi-manufactures.

The Committee has completed the examination of the first item in its agenda. ^{of use} The Committee's discussion on this topic was based on two documents, the Charter of Algiers (Part II, Section B) and the Report of the Special Group of OECD on Trade with the Developing Countries. The latter document lists the demands of the LDC's, ^{first} in the ~~text~~, the position of the developed countries is ~~not~~ ^{not} clear in regard to the general principle of a system of temporary non-discriminatory, non-reciprocal, degressive ~~xxxxxxxxxx~~ general preferences for the exports of manufactures and semi-manufactures of developing countries. The following are the main points emerging from the discussion:

The Second Sets out

i 1) Product coverage

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The developing countries criticized the OECD Report for not including processed and semi-processed agricultural products in the initial list of products covered by the scheme. They drew attention to the fact that such products accounted for 20% of the exports of manufactures and semi-manufactures of the developing countries, and that such products were especially important if the least advanced developing countries were to benefit from the system. The developed countries stated that the phrase "other products on a case-by-case basis" in the OECD Report was not intended to preclude the inclusion of processed and semi-processed agricultural products in a scheme of preferences. The main problem was that they had not had sufficient time to consider the question of agricultural products in detail.

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ii 2) Duration of the preferential scheme

duration

In their report, the OECD countries had stressed that the scheme was to be temporary and degressive, and suggested a period of ten years, subject to review toward the end of the period to decide whether the scheme should be continued, modified or abolished. In the Charter of Algiers, the Group of "77" had suggested an initial period of twenty years. The developing countries, supported by several developed countries, urged that the scheme should last as long as was necessary to achieve its objectives and, in particular, to facilitate investment in and export from the developing countries.

3) Extent of preferential duty reductions, safeguards and adjustment measures

There was general agreement that a system of preferences would have to include a safeguard mechanism. Differences in opinion, however, arose as to how and under what conditions the safeguard action could be taken. *indeed*

The developing countries expressed ~~X~~ concern that the list of exceptions in the scheme might become too long. They suggested that protection by means of safeguard measures was preferable to ab initio protection through a system of exceptions. They also considered that duty-free entry was more desirable than reduced duty treatment.

The developed countries ^{said} ~~pointed out~~ that it had not been possible for them to choose between tariff quotas and escape clause action. They agreed that the list of exceptions should be kept as short as possible and added that escape clause action was bound to be invoked sparingly in the system of preferences. ~~for a number of reasons.~~

iv) Special provisions for the least advanced developing countries

The Committee appeared unanimous in ~~the~~ feeling that special measures should be introduced to enable the least advanced developing countries to secure a fair share of the benefits accruing from a system of general preferences.

The developing countries emphasized again that unless processed and semi-processed agricultural products were included in the system, the least advanced countries would not derive immediate advantages ~~from the system~~. They also said that the escape clause should not, as far as possible, be applied to less competitive exports of the least developed countries. Finally, they proposed that the developed countries and international financial institutions provide technical and financial assistance to the least advanced countries to encourage their export industries.

The developed countries said that, in a case-by-case examination of processed and semi-processed primary products, the special interest of the least developed countries could be taken into account. Further, in regard to the duration of the system of preferences, the developed countries should maintain a flexible attitude, and decisions ~~in regard to~~ escape clause action should be taken with due regard to the situation in those countries. Some developed countries, however, stressed the need to define "the least advanced countries" before any decision could be made ^{on} the special measures to be taken in their favour.

v) Existing and reverse preferential arrangements

The majority of ^{the} ~~Committee members~~ agreed that the general preference system should ensure at least equivalent advantages for the developing countries which, at present, enjoyed preferences in certain developed countries. It was nevertheless recognized that at the present stage of the discussion it was impossible to say exactly how far the general system would be capable of providing such advantages.

Concerning reverse preferences granted in the markets of some developing countries to some developed countries, most developed, developing and socialist

to the extent possible

concerning

to next page

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countries favoured their abolition, while France, supported by some African countries, thought that they were of secondary importance and should be settled among the developed countries themselves.

vi) Other elements in the general system of preferences

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elements involved in a

Because of the shortage of time, and pressure to arrive at some agreement in the "Contact Group" on the basic issues which were discussed earlier, the Committee decided to consider the remaining topics in the general scheme of preferences together. The exchange of views on these topics (i.e. institutional arrangements, rules of origin, donor and beneficiary countries, action by countries with centrally planned economies and by developing countries, and implementation) was very general and there was hardly any debate. There was general agreement that UNCTAD should supervise and review the operation of the general system of preferences, that the rules of origin should be subject to international understanding and that all developed and developing countries should participate in the system.

6. Committee III

The following agenda items were taken up for discussion in the order indicated:

- a) Increasing the flow of international public and private capital;
- b) Improving the mobilization of internal resources; and
- c) Improving the terms and conditions of aid, and alleviating the problems of external indebtedness.

The representatives of the ^{U.S.S.R.} Soviet Union and the other socialist countries (except Yugoslavia) repeated their familiar views that a distinction should be made between socialist and capitalist countries in considering the scale of their development assistance. Their assistance was to specific projects, and repayments were in kind, i.e. out of the output resulting from the investments.

Their own

The representatives of the developing countries generally based their statements on the Algiers Charter. Some of them traced the background of the aid target of one per cent and argued that this background established that the denominator referred to gross national product and not net national income; in their view a separate target for financial aid flows was called for. It was not only the volume of aid but its character that was equally relevant, whether the assistance was in the form of grants or long-term concessional loans or short-term high interest loans, on the other.

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The representative of Yugoslavia, in particular, emphasized the need to consider the real net transfers of resources to developing countries, as in view of the amortisation payments and reverse capital flows, as well as interest and profit remittances, from the less-developed countries, were very substantial.

in view of the sub-stantive amount of

Several spokesmen of developing countries recognized that the development of their economies was primarily their own responsibility; about three-quarters or even more of the resources required for investment were raised

domestically. At the same time, the development process would be facilitated by the transfer of resources from the richer countries. Currently, in their view, the inadequacy of external resources was a serious constraint on their development efforts.

A number of developing countries were facing a severe debt problem. The proportion of debt servicing to gross capital flows was high. Commercial credits, on rather onerous terms, as well as the tying of aid, were compounding their difficulties. The developing countries unanimously urged the softening of aid terms, the regulation of suppliers' credits, the untying of aid, and the channeling of aid to a greater extent through multilateral institutions.

India referred to Marshall Plan aid terms to the countries of Europe, in particular, to a special feature in the loans to the UK - the so-called "Disque" clause, i.e., waiver of interest payments whenever the debtor country faced balance-of-payment difficulties. In India's view such a provision would be most relevant to development finance today.

The representatives of developed countries recognized the role that external capital could play in the development process and the need for enlarging aid volume and harmonizing aid terms. Several spokesmen referred to the resolutions of the United Nations and of the DAC on these matters, generally endorsed them, and outlined the efforts of their respective countries to move in these directions. In the course of the discussions, ~~generally, Sweden and other Nordic countries,~~ Canada and the Netherlands, were ^{generally} more forthcoming and also forward-looking than the other donor countries. Some regretted that the proposed IDA replenishment was not on a still larger scale. The Netherlands had no difficulty with the aid targets proposed in the Algiers Charter, including a separate target for official aid. France referred to a real crisis in volume of assistance, and was of the view that the aid target was serving a useful purpose.

Several representatives of donor countries ^{he} could not accept gross national product as the denominator for aid target. They attached particular importance to the role of private investments. ^{said that they} The U.S. urged studies be undertaken in depth on the rights and obligations of investors in recipient countries, as well as the consequence of direct private foreign investment. ^{that}

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win) A number of representatives of donor countries emphasized the importance of domestic resource mobilization. Such domestic effort, as well as the effective use of external resources, would help to improve the climate (political will) for aid in developed countries. As for debt problems, they could only be dealt with on a country-by-country basis; it was even more important to prevent critical situations from arising. The responsibility rested with credit givers as well as the recipients. While they generally agreed that untying of aid was desirable, in the prevailing conditions it might result in a reduction of aid volume. The balance-of-payments difficulties of some donor countries had also to be taken into account.

There was not much comment on commercial credits per se. The UK representative, however, said that this field required further investigation and suggested that an intergovernmental group might be set up for this purpose.

Several references were made to the World Bank Group by the representatives of developing countries in terms of the proposals in the Algiers Charter.

These questions were dealt with by the representative of the World Bank in a statement to the Committee on February 23 (attached hereto).

The proposal made by Mr. Woods for a "grand assize" was accorded considerable support in the Committee.

7. Committee IV

The Committee IV, on Invisibles and Shipping, held 24 meetings, completed ~~the~~ discussion of, and adopted, two resolutions on shipping matters, and began ~~the~~ discussion on insurance and tourism.

In the ^{Algeria} Charter of ~~Algeria~~, developing countries ~~had~~ requested that specific action ~~should~~ be taken by UNCTAD, in collaboration with UNIP and the regional economic commissions, to establish national and regional consultation machinery between shippers, on the one hand, and shipowners or their liner conferences, on the other ~~hand~~. Such consultation machinery would permit developing countries shippers to discuss matters of prime interest to them, such as freight rates, liner conference practices and adequacy of shipping services. Developed countries, ~~and~~ especially ^{the} large maritime nations, while agreeing on the need to provide for such consultations, questioned whether they should be placed under government control; ~~and~~ some delegates stated that the West European consultation machinery on shipping could serve as ^a useful guide for the organization of ~~a~~ consultation machinery. A resolution was tabled by developing countries inviting governments of the developed countries to take necessary steps to establish appropriate consultation machinery. A compromise solution was found on the basis of a draft resolution submitted by the Chairman of the Committee. This resolution, ~~which~~ ^{was} adopted unanimously by the Committee (see Appendix II), recommends "That the Governments of member States of UNCTAD should urge liner conferences ... to recognize shippers' councils ... and cooperate in the establishment and effective functioning of appropriate consultation machinery."

On the question of the level and structure of freight rates and conference practices, developing countries complained that the present liner conferences ^{services of the} were detrimental to their interests, that freight rates were not related to transportation costs and that ^{the decisions of} liner conferences ~~decisions~~ on freight rate increases were kept secret. The Secretariat was asked to undertake detailed studies on the fixing of freight rates and liner conferences practices. A draft resolution on that matter was submitted by the Group of 77. It calls for a ^{reduction} ~~decrease~~ in freight rates, a better spread of information, the right of shipping lines of developing countries to participate in deliberation and decisions of conferences, technical assistance and further studies. This resolution is still being discussed in the ~~Contact~~ ^{Contact} Group of the Committee.

The question of ^{the establishment of} ~~shipping industry~~ and expansion of merchant marines in developing countries gave also rise to divergences of opinion. The improvement of shipping services, ^{an} equal voice in liner conferences and contribution toward regional economic integration were given as examples of ~~the~~ ^{the} benefits that developing countries expected to derive from the expansion of their merchant marines. Developed countries expressed doubts ~~as to whether~~ ^{if} the establishment of national merchant marines would ~~represent~~ ^{be} the best way of solving the alleged difficulties faced by the developing countries in the field of shipping. They emphasized that this matter had to be considered on a country-by-country basis after full feasibility studies, ~~were completed.~~

Completion of

was discussed at

International shipping legislation took six meetings of the Committee. Developing countries recalled the provision included in the *Algeria* Charter of ~~Algeria~~ that "UNCTAD II should include international shipping legislation in the work program of the Committee on Shipping." They argued that despite the multiplicity of international or inter-governmental or private organizations dealing with maritime law, and the variety of legal instruments in force, ^{*are remained*} large gaps ~~still existed~~ in the existing legislation on matters of direct interest to developing countries, such as charter parties, bills of lading, marine insurance and navigation in territorial waters. There was also a need for uniform interpretation of existing conventions. ^{*The*} Socialist countries of Eastern Europe felt also that UNCTAD should play a coordinating role in the field of ^{*shipping legislation*} ~~legislation on shipping~~ and maritime law.

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Developed countries ^{*expressed a preference for*} ~~stated that they preferred~~ relying on ~~the~~ existing legal practices and institutional machinery, which had proved to be quite adequate ^{*for*} in the formulation and adoption of new legal instruments as and when needed. Furthermore, ^{*the*} (UNCITRAL) United Nations Commission on International Trade Law had just been created by the General Assembly to ^{*work on*} ~~perform this~~ over-all harmonization and unification of the law of international trade including shipping. The Secretariat endorsed this view, ^{*However,*} but the possibility of a standing committee on international legislation on shipping is under consideration.

The last part of the Committee's work on shipping was devoted to the progress report on ^a studies by the Secretariat ^{concerning} on port development and improvement. [The Secretariat ^{indicated} ~~pointed out~~ that full coordination was sought with the activities of U.N. Headquarters in that matter and that the ^{studies were} ~~study was~~ focussed on the optimization of port utilization ^{main utilization of ports.} Developed countries and socialist countries of Group B stated their readiness to continue to cooperate in those studies and to give technical assistance and training in the field of port operation and cargo movement. Representatives of some developing countries suggested setting up a special fund for port development and modernization, and that existing international institutions (IBRD, IDA and regional development Banks) should take ^a greater interest in this matter.

*Secret on
reference*

In addition to the resolution on consultation machinery mentioned above, the Committee ^{also} adopted ^{unanimously} a resolution on the timing of the ^{the} meetings of the Committee on Shipping.

During the last week under review, Committee IV began consideration of Insurance and Tourism. ~~Two~~ Secretariat papers were circulated dealing ~~respectively with~~ ~~the~~ the division of responsibility among the United Nations Secretariat units concerned with insurance questions, and ~~the~~ the activities of the Department of Economic and Social Affairs in the field of tourism. Discussion is still going on in Committee.

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8. Committee V

Committee V, which was set up to consider agenda items under Trends and Problems in World Trade and Development ¹¹ ~~(items 9(a) to 9(e))~~, has held 12 meetings and ^{had} discussed two agenda items: ~~the~~ steps to achieve a greater measure of agreement on principles governing international trade relations and trade policies conducive to development ~~(item 9(b))~~; and ~~the~~ trade relations among countries having different economic and social systems including problems of East-West trade, paying attention particularly to the trade interests of developing countries and taking into account ~~the~~ work in this field ^{by} of other United Nations organs, including the regional economic commissions ~~(item 9(c))~~.

In regard to ~~item 9(b)~~ ^{as part of these}, developing countries voiced disappointment that the General and Special Principles adopted at the ~~first UNCTAD~~ ^I ~~(I, I, I)~~ had remained largely unimplemented, although some progress had been made in the partial application of the principles of nonreciprocity in the Kennedy Round and changes ^{had} occurred in the attitude of some developed countries with respect to the question of preferential treatment of manufactures and semi-manufactures exports ^{ed by} of developing countries. They urged that the Conference ~~should~~ examine ways to implement these ^{principles} ~~which had already been~~ ^{adopted at UNCTAD I} and consider new ones by taking into account the issues relating to ~~international trade relations and policies conducive to development, which are under discussion in other Committees and Working Groups.~~

Developed countries, on the other hand, took the position that the Principles adopted at the first Conference contained certain limitations not only from the point of view of ^{their} content and coverage, but also ~~from the point of view~~ of their acceptability to governments, particularly to those governments to which some of them were addressed. They commented that the Conference should consider drafting a new set of principles with a view to achieving the broadest possible measure of agreement ~~which was absent at the first Conference.~~ The ^Doubt was also expressed by some developed countries ~~as to~~ whether the expansion of trade and economic growth of developing countries depended on the adoption of a set of general principles.

On the question of East-West trade, the ^{discussion was largely an} exchange of views took place largely between the developing and ^{the} socialist countries. It was noted that, despite a rapid expansion in recent years, the volume of trade between these two groups ~~still~~ remained small and ^{not} only a few developing countries shared ^{measurably} the benefit of the increasing ^{ad} trading opportunities with the socialist countries. Developing countries expressed the view that the conclusion of bilateral trading arrangements with the socialist countries had helped to maintain a reasonable degree of stability in the volume and prices of the export of primary commodities. It was felt that the expansion of trade between the developing and socialist countries would be facilitated further if certain new measures were adopted by the latter. Some of the measures mentioned were ^{as follows:} ~~as follows:~~

1. The margin between the import and sales prices of goods from the developing countries in the socialist countries should be reduced to stimulate the consumption of these products;
2. The socialist countries should offer preferential access and preferential tariff treatment to imports from developing countries which are no less favorable than those offered by developed market economy countries;
3. Greater flexibility should be introduced in the multilateral transfer of bilateral balances;
4. The socialist countries should endeavor to increase imports of primary products from developing countries whenever these commodities are available at competitive prices;
5. In their economic plans, the socialist countries should systematically reserve a certain share of their markets for imports of manufactured and semi-manufactured goods from developing countries;
6. The socialist countries should provide capital to finance private and public projects in developing countries and accept repayment in the form of commodities which are produced by these projects;
7. Socialist countries should refrain from re-exporting goods imported from developing countries without the consent of the latter.

Several socialist countries remarked that their economies were becoming more foreign-trade oriented and that ^{of their} ~~increased~~ imports of capital goods from developed ~~market economy~~ countries ^{increased, this would be enlarge their} helped ~~to create~~ markets for imports from developing countries. In their view, more important issues in the East-West trade relations were ~~the~~ multilateralization of trade and payments between industrially advanced socialist and developed market economy countries; ~~the~~ application of the most-favored-nation clause in East-West trade relations; ~~the~~ abolition of quantitative restrictions and other discriminatory practices by developed market economy countries and developing countries ^{with respect} to imports from the socialist countries; and ~~the~~ joint ventures by socialist and developed market economy countries in developing countries.

[Handwritten scribble]

9. Working Group I

Working Group I (55 members) was established during the second week of the Conference to consider two agenda items, ~~namely world food problems and transfer of technology.~~ It held ^{four} its first meeting ~~on February 26 under the Chairmanship of Mr. Domingo Santa María from Chile and held three further meetings during the period under review.~~ Mr. Ojala, Director of the Commodity ^{ies} Division of ~~the~~ FAO, made an introductory statement highlighting some main features of the world food situation, ~~and problem.~~

Started on February 26,

The points ^{described} ~~which have come under discussion~~ so far include: (i) domestic measures to be taken by developing countries to increase food production, including pricing policies and production of farm inputs; (ii) aid to foster agricultural production including fertilizers, pesticides and farm machinery; (iii) food aid; and (iv) protectionist agricultural policies of some developed members and ^{the} ~~its~~ adverse effect on exports from developing countries.

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Discussion is going on and four more meetings ^{are to} ~~would~~ be devoted to ~~this~~ that subject.

10. Working Group II

Working Group II, consisting of 53 members, was established on February 14 to consider two agenda items: ~~11~~ trade expansion and economic integration among developing countries, measures to be taken by developing and developed countries--including regional, sub-regional and inter-regional arrangements (agenda item 14); and ~~12~~ special measures to be taken in favour of the least developed among the developing countries aimed at expanding their trade and improving their economic and social development (agenda item 15). The Group held ^{eight} meetings during the last two weeks of February and heard statements from several national delegations and regional organizations on the two major topics under ^{the first of these} ~~item 14~~, i.e., review of progress made and problems encountered in regard to trade expansion and integration among the developing countries, and international support action in the fields of commercial, financial, and technical assistance.

No understanding

Representatives of regional organizations, in describing briefly the history and accomplishments of their respective organization, ⁵ drew attention to some of the more common difficulties which ~~had to be~~ encountered in regional integration. ~~These were:~~ lack of adequate infrastructure; high tariff barriers against trade between countries in the region; ~~the~~ fear of unemployment which ^{resulting} could arise from trade liberalization; existing preferential ties which some of the developing countries, ^{between} ~~maintained~~ ^{+ some developed} with the developed

countries; inadequate ^{of IV} reserves to take care of potential balance of payments difficulties ^{arising} which ~~might arise~~ from regional trade liberalization; and lack of external sources of funds to finance regional investment programs.

Developing countries emphasized that trade expansion and economic integration among developing countries ^{could} make ^a useful contribution to their economic growth and ^{would} that developed countries ~~should~~ provide financial support and technical assistance to individual developing country ^{ies} or regional groups which ~~were~~ encountering difficulties in the process of integration. Reference was also made to the useful role which regional payments arrangements could play in the promotion of regional trade and to the financial contribution and technical assistance which the Fund ^{IMF} could provide.

Developed countries expressed the view that trade expansion on a regional basis should not adversely affect the export opportunities of third countries (which were most likely to be developing countries). On the question of regional payments arrangements, some developed countries commented that, although such arrangements might assist the flow of regional trade, there were equally important problems ^{deserving of} which ~~should receive due~~ attention, e.g., improvement of infrastructure and coordination of investment programs on a regional basis. All developed countries, however, expressed their willingness to support ^a resolution ^{drafted in} of the Working Group, inviting them to assist developing countries in their regional integration efforts. During the meeting on February 29, the observers from the Fund ^{IMF} and the World Bank ^{IBRD} delivered ^{of} statements on this subject.

11. Working Group III

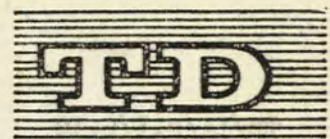
Working Group III, consisting of 34 members, held two meetings to consider Special Problems of the land-locked countries, (agenda item 9(g)). General statements were made by several developing countries concerning the special transportation problems faced by the land-locked countries and the need for concerted international action to alleviate them.

12. Organization

The accommodation and transportation arrangements of the Government of India have worked out very smoothly. The organization of the Conference had been studied thoroughly in advance and for the first two weeks there were no difficulties. ^{The} ~~Basically five Committees and three Working Groups were set up~~ ^{of the Conference} ~~to cope with the agenda.~~ The Committees were provided with full servicing, i.e., interpretation and summary records; ^{the} ~~The~~ Working Groups ^{were provided} with interpretation only. ^{As} The number of ^{meetings of the} ~~Committees~~ rose sharply ^{and} additional teams of precis writers and interpreters had to be introduced to cope with the increased ^{work load.} But the main problems were with other meetings, including those of the geographical Groups and Contact Groups, which rose from ^{six} ~~6~~ in the first week to 79 in the fourth week. By the end of February, there were about 100 separate bodies functioning and, in the words of a Conference paper, the Conference had "assumed proportions larger than the General Assembly itself." Emergency measures were proposed to prevent the Conference from stultification through further proliferation of bodies and their meetings.



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THIRD COMMITTEE
Agenda item 12(c)

GROWTH, DEVELOPMENT FINANCE AND AID (SYNCHRONIZATION OF INTERNATIONAL AND NATIONAL POLICIES)

SUPPLEMENTARY FINANCIAL MEASURES

Draft resolution submitted by: Afghanistan, Algeria, Argentina, Barbados, Bolivia, Brazil, Burma, Burundi, Cambodia, Cameroon, Central African Republic, Ceylon, Chad, Chile, Colombia, Congo (Brazzaville), Congo (Democratic Republic of), Costa Rica, Cyprus, Dominican Republic, Ecuador, Ethiopia, Gabon, Gambia, Ghana, Guatemala, Guinea, Guyana, Honduras, India, Indonesia, Iran, Iraq, Ivory Coast, Jamaica, Jordan, Kenya, Kuwait, Laos, Lebanon, Lesotho, Liberia, Libya, Madagascar, Malaysia, Malawi, Mali, Mauritania, Mexico, Morocco, Nepal, Nicaragua, Niger, Nigeria, Pakistan, Peru, Philippines, Republic of Korea, Republic of Viet-Nam, Rwanda, Saudi Arabia, Senegal, Sierra Leone, Singapore, Somalia, Southern Yemen, Sudan, Syria, Thailand, Togo, Trinidad and Tobago, Tunisia, Uganda, United Arab Republic, United Republic of Tanzania, Upper Volta, Uruguay, Venezuela, Yugoslavia, and Zambia.

The Conference,

1. Approves the Joint Statement by the developing countries members of the Intergovernmental Group on Supplementary Financing contained in document TD/41, which declares:

"1. The efforts of developing countries to accelerate the pace of their economic development are severely hampered by uncertainty regarding their export earnings. In view of the crucial importance of foreign exchange in economic development, uncertainty regarding foreign exchange receipts renders orderly planning extremely difficult. Export earnings usually being the most important source of foreign exchange, unexpected export shortfalls can seriously disrupt otherwise sound development programmes. The developing countries, therefore, wish to reaffirm their strong support of recommendation A.IV.18 and to state that in their view a scheme along the lines of that recommendation is both desirable and feasible.

"2. The developing countries note that in its report the staff of the World Bank came to the conclusion:

- (a) that the problem of adverse movements in the export proceeds of developing countries is a genuine one, because of the disruptive effect on development;
- (b) that the existing international financial machinery does not include a mechanism designed to meet this problem;
- (c) that a feasible scheme of supplementary financing could be worked out.

The developing countries strongly support this view, and note also that this view has received the support of several developed countries.

"3. The scheme should embody the following elements:

- (a) an export norm from which shortfalls may be measured;
- (b) a policy understanding;
- (c) provision for the use of other available resources;
- (d) clearly limited financial commitments by donor countries to a fixed and adequate amount, such amount to be additional to that which donor countries are now providing by way of development assistance;
- (e) compatibility with the compensatory financing facility of the International Monetary Fund.

"4. It is indispensable for assistance under the scheme to be based on objective criteria. There is a general agreement in the Intergovernmental Group on the need for an export norm of some kind. The staff of the World Bank has proposed that the export norm be determined by export projections, and the developing countries support this approach as the appropriate method for interpreting 'reasonable expectations'. It may be noted that the drawing up of any development plan necessarily involves taking a view of export prospects, and under prevailing international practice the need for basic development finance is determined at least in part on the basis of prospective export receipts and foreign exchange expenditure. What the scheme implies is that in so far as export receipts fall short of the level foreseen in the development plan, as accepted by the international community, efforts should be made to make good the shortfall, so as to permit the accepted plan to be implemented.

"5. The developing countries accept the view that it is necessary to ensure that supplementary finance is used for the purposes for which it is intended, namely to safeguard development plans against disruption due to export shortfalls that are beyond their control. To this end, they agree that countries should, at the beginning of each planning period, have a policy understanding with the Agency indicating the main lines of the economic policy that they intend to pursue. In addition, at the time of any shortfall, there should be a determination, by consultation between the Agency and the country concerned, of whether the drop in export income is due to circumstances beyond the control of the country concerned.

"6. It has been suggested in the Bank Staff Study that consultation between the Agency and member countries should take place on a continuous basis so as to ensure a prompt determination in the event of a shortfall. The need for such continuous consultation requires further examination. In any event, consultation under the scheme, whether continuous, or whether limited along the lines of paragraph 5 [above], would have to be consistent with the requirements of national sovereignty as defined by that country.

"7. The staff of the World Bank recommend the prior use of other foreign exchange resources, including reserves and the compensatory financing facility of the Fund, if available. The developing countries accept this proposal. At the same time they wish to point out that countries suffering export shortfalls should not be compelled to resort to credit facilities which are subject to onerous terms and conditions, or to run down their gold and foreign exchange reserves below prudent levels.

"8. The working out of a supplementary financing scheme should not interfere with IDA replenishment since financial obligations under the scheme could not arise for some considerable time ahead.

"9. The developing countries fully endorse the view that the scheme must not be established in such a way as to give rise to an open-ended commitment on the part of donor countries. They are satisfied that a workable scheme could be set up on the basis of a fixed commitment of \$300-400 million per annum for an initial five-year period as recommended by the staff of the World Bank. The developing countries accept the need for rationing as a method of last resort for reconciling claims upon the Agency with fixed resources. They are convinced that it is feasible to establish an equitable system of rationing on objective criteria.

"10 The developing countries see the need for further liberalization of the International Monetary Fund's compensatory financing facility, but they believe that the objectives of the supplementary financing scheme cannot be secured through such liberalization. Nor can they accept refinancing of the Fund facility as the sole or main objective of the scheme.

"11 On the other hand, the developing countries accept the view that the operations of the Agency should be compatible with those of the International Monetary Fund. This should be secured by consultation between the two institutions bearing in mind the views of the Fund on matters falling within its competence, such as the extent to which there should be recourse to the gold and foreign exchange reserves of member countries in meeting export shortfalls."

* * *

2. Approves further the general agreement by the Intergovernmental Group on Supplementary Financing (paragraph 39, section (i), of document TD/33) and the Charter of Algiers, which indicate that the policy understanding envisaged in paragraphs 4 and 5 of document TD/41 between the Agency and the country concerned should not involve commitments which would infringe the sovereignty of any member country as defined by that country;

3. Authorizes the Intergovernmental Group, within the limits of the joint statement referred to above, to negotiate and decide on the features of the machinery for supplementary financing, including draft statutes and proposals for the financing of that machinery, in time for it to be submitted to the seventh meeting of the Trade and Development Board;

4. Further authorizes the Trade and Development Board to consider, with a view to their adoption, the features of the machinery for supplementary financing to be decided upon by the Intergovernmental Group, or any agreement which it may have reached, and to transmit the results of its consideration to the Administrators and the Board of Governors of the IBRD for study and implementation;

5. Requests the Executive Directors of the IBRD to ensure that the Board of Governors of the IBRD will examine, before the annual meeting in 1969, any recommendation by the Trade and Development Board on measures of supplementary financing;

6. Requests the Governments of countries members of the IBRD to ratify the system of supplementary financing which shall have been approved by the Trade and Development Board and by the Governors of the IBRD.

Handwritten: 3/12

11 March 1968

(Revised title)

CONTACT GROUP OF THE THIRD COMMITTEE

Suggestions by a majority of members of Group B
on Supplementary Financial Measures, Agenda Item 12(c)

1. The Conference agrees on the urgency of the need to provide supplementary assistance to developing countries which have suffered short-falls from reasonable expectations in their export proceeds, of a nature which may disrupt their development plans.
2. It is essential that any arrangements which may be made to meet this need should, on the basis of appropriate criteria, provide reasonable assurance of help to mitigate the effects of such short-falls, 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 IBRD, and of the Reports of the I.G.G. 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 principle issues are:
 - (i) The definition and method of assessment of reasonable expectations;
 - (ii) 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;
 - (iii) The measures to be taken by countries applying for assistance;
 - (iv) 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 short-falls and consequently, what are the financial implications of proposals to meet the objectives of Part A of Recommendation A IV 10.
5. Some of the issues set forth in paragraphs 3 and 4 above would arise not only from consideration of the World Bank Staff Scheme but from consideration of other measures to meet the objectives of Part A of Recommendation A IV 10, including those submitted to the Intergovernmental Group. Any additional proposals clearly

CONTACT GROUP OF THE THIRD COMMITTEE

responsive to the Recommendation should receive due attention, with the aim of working out the most effective measures possible.

6. It is also necessary to take account of any other action in the field of international commodity policy which may be decided by 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 meetings.

7. The Conference decides:

- (i) to continue in existence the Inter-governmental Group;
- (ii) to request the Group to consider and attempt to resolve the issues set forth in paragraphs 2 through 5, keeping in mind the considerations in paragraph 6;
- (iii) in the light of the foregoing considerations to instruct the Group to work out measures for supplementary finance;
- (iv) to instruct the Group to report thereon to the TDB as early as possible, and no later than 31 December 1969;
- (v) to instruct the Chairman of the Group to report on its progress to the Seventh Session of the Trade and Development Board.

TP/II/03/04/Misc/7/Rev.1
WP.68-202

*Note by
India*

29/4
Note by the Indian Delegation on the
Supplementary Financial Measures.

Distributed to Committee

Introduction.

The proposal for a scheme of Supplementary Financial Measures, which was made at the First UNCTAD, has faced some difficulties in the past four years. Perhaps, some of the difficulties experienced by some developed countries in appreciating the purpose of the proposal arise from the fact that it is addressed to a rather special problem of developing countries, which is a nontheless very real problem, if not so obvious.

The Problem of Plan Disruption
through Export shortfalls:

2. What the proposed S.F.M. Scheme is designed to tackle is not merely the instability which characterises the export earnings of developing countries. Its object is to tackle a somewhat complex problem with its roots in this instability. First, there has to be an unforeseen shortfall in export earnings from an expected level; secondly, it has to be of a persistent character such that it cannot be dealt with adequately by short-term balance of payments assistance; finally, it must be of such a magnitude as to threaten to disrupt the development programme of the exporting country. All these are integral features of the problem which SFM is designed to tackle.

3. While it is not difficult to see how a shortfall in export earnings from reasonable expectations can occur, nor how it can arise from unforeseen circumstances, perhaps its disruptive effects on a developmental programme call for some explanation.

4. In the estimation of the foreign exchange resources required for a development programme, the contribution of exports has to be assigned a definite value. The total earnings from exports as well as from other sources such as foreign aid, invisible receipts, private capital inflow, and sometimes even drawings on a country's surplus reserves constitute the wherewithal for financing a development programme. It follows that, if the total estimated resources fail fully to materialise, there would have to be a curtailment pro tanto of the import programme. Now, in every development programme, there is normally some room for marginal adjustments. However, when the required curtailment in imports assumes

a large proportion, it calls for a rather drastic adjustment in the development programme which could amount to its disruption. If the totality of the foreign exchange expenditure, which is mainly on imports, is to remain unimpaired, the totality of the estimated foreign exchange resources, must accrue as planned, though not necessarily sourcewise. If the earnings from exports fail to come up to estimated levels, then, unless the shortfall is made good, there is a danger of disruption of the development plan.

Possible Sources of Financing:

(a) Basic Development Finance:

5. How about ^{other} sources of finance? Can they be depended upon to make good an unforeseen shortfall in exports? There is neither an automatic mechanism nor a practical likelihood that basic developmental finance could be increased so as to make good such a shortfall. Recent experience of the flows of development finance, does not encourage such an optimistic view.

(b) International Liquidity:

6. Another source is international liquidity such as reserves or drawings on IMF. However, these are both basically shortterm. Secondly, drawings on IMF get progressively more and more conditional. Further, if the export shortfall is persistent, it cannot be dealt with at all by the use of international liquidity drawings which have to be repaid or re-constituted in a short time.

(c) Compensatory Financing Facility:

7. A further possibility is the use of the Compensatory Financing Facility of the International Monetary Fund. The Inter-governmental Group on Supplementary Financing has had rather intensive discussions on the question of the relationship between CFF and SFM. Although, the notion that the former is shortterm and the latter is longterm seems to die hard, the differences between the two concepts are deeper and perhaps somewhat more subtle. CFF essentially is a statistical concept. Its aim is to smooth out negative deviations from the medium term trend of exports. On the other hand, the negative deviations which would be financed under SFM would not necessarily be from an extrapolation of the medium-term trend of exports, but would instead be from projections of reasonable expectations. Since reasonable expectations could be based not merely on the past trends but also

on such factors as the likely influence of new policies or developments which are expected to occur, their projections could easily and abruptly break away from the past trends. In that event, in a given situation, there could be a shortfall from the SFM trend but none from the CFF trend or vice-versa, and, in any case, the magnitudes of the shortfalls could be completely different in the two cases. Secondly, even if a drawing is made under CFF, it will still be essentially shortterm and its repayment would be unrelated to the recovery of exports. Even if a re-financing facility for drawings under CFF is introduced, it would still not serve the purpose for reasons which have been indicated earlier. Furthermore, inasmuch as CFF assistance is computed on the basis of a moving average, in the case of a persistent shortfall, notwithstanding a restoration ~~pro tanto~~ pro tanto of the facility after a repayment, the successive drawings would be progressively smaller. One has, therefore, to conclude that the problem of the disruption of a development programme because of unforeseen and persistent shortfalls in exports is a real one and a serious one and there is no method or means of dealing with it adequately in the present institutional or policy framework for international financing. Hence, the need for a Scheme of Supplementary Financing.

Commodity Arrangements:

8. Of course, inasmuch as prevention is always better than cure, any arrangements for the stabilisation of commodity prices ~~or~~ or markets that may be devised would tend to prevent the export shortfalls from occurring or diminish their magnitude. There is, therefore, no logical incompatibility between the SFM Scheme and commodity stabilisation or marketing arrangements. On the contrary, they are complementary to each other in the sense that SFM would then cover only that kind or part of shortfall which would occur due to causes outside the scope of commodity arrangements.

9. This does not mean that the shortfalls would then be confined to the exports of manufactures and semi-manufactures. They could occur even in respect of (a) the exports of commodities which are not covered by commodity arrangements, or, (b) in respect of the exports of commodities which are covered but to markets which are not covered; or, (c) where

the value of the exports implied in the reasonable expectations is larger than that assured by marketing arrangements; or (d) where the market organization covers only the price but not the volume or (e) vice versa; or (f) where the reasonable expectations of exports have a positive or a higher rate of growth, while the rate of growth of the assured offtake is either zero or lower than that implied in the reasonable expectations. Finally, (g) the best of commodity arrangements that human ingenuity can devise could only avoid the variations in export earnings stemming from changes in demand but not those arising from changes in supply. In any event, with the best possible commodity marketing arrangements, it is hardly possible totally to eliminate the element of uncertainty which plays such a large role in economic affairs as well as human affairs in general.

10. This is briefly the logical case for a Scheme of Supplementary Financial Measures. The Committee on Invisibles and Financing Related to Trade had examined it and referred it for further and detailed examination in depth to an Intergovernmental Group, the results of whose deliberations are before this Committee. While all the developing countries and some developed countries, members of the Group, have supported the Scheme, the report of the Intergovernmental Group contains some unresolved questions which, in the view of the Indian delegation, certainly admit of practical solutions.

Unresolved Issues:

(a) Export Projections for five years.

11. The first of these unresolved issues is the question of the feasibility of making export projections for 5 years ahead. This is a technical question about the techniques of medium term forecasting. It is not proposed in this paper to deal with this question beyond emphasizing that the advances of the past twenty years in the science of economic forecasting have made it possible to attempt forecasts for five years with a fairly limited margin of error. No doubt, forecasts do often go astray. But, then this feature is not restricted to medium-term or long-term forecasts only but can apply just as well to short-term forecasts. In any case, it is not, as if export-forecasts for 5 years ahead will be made only for the SFM Scheme. Almost all developing countries have development plans of 5 years and willy-nilly, they have to put a value to exports for 5 years ahead as the

formulation of a five-year development plan necessarily requires, as best as one can make it an estimation of all the major macro-economic variables including exports. Admittedly, exports are more subject to the fitful vagaries of external factors such as foreign demand, external competition, restrictive import policies of other countries and so on. Nevertheless, one has to and one does make estimates of exports as one does of imports, investment, savings, consumption, production and so on, although all of them are liable to go wrong in some measure. Although, the IBRD staff report on this subject is fairly comprehensive, perhaps, UNCTAD Secretariat could be requested to attempt a comparative study of alternative techniques of medium-term export forecasting with a view to discovering the technique which is most suitable for the purpose of SFM export projections.

~~(a)~~ (b) Midterm review and revision of export projections:

12. Secondly, the question has been raised in the Inter-governmental Group's discussions of the need and advisability of a midterm review or revision of the agreed projections. It is felt that a midterm revision would be logically inconsistent with the purpose of the scheme and in the absence of the intention of a revision, a review would scarcely be meaningful. The central purpose of SFM is to maintain unimpaired the value of the export earnings as estimated at the beginning of a plan period in order to prevent a disruption of the plan. Of course, the implied undertaking to maintain intact the total export earnings as estimated is not just unilateral, but conditional upon the pursuit of appropriate policies, which would ensure that any export shortfall which may occur despite it would naturally be presumed to have been due to external factors beyond the policy control of the country concerned. In that case, it would need and SFM would provide the necessary financing. This great facility which could prevent a disruption of a development plan, would be rendered fairly ineffective, if there were to be a midterm revision of the export projections. Under what type of circumstances would there be a need for a midterm revision? When a foreign country imposes restrictions on ~~exports~~ imports? When suddenly a synthetic product captures the market for a natural product which, therefore, becomes obsolete? These are, in fact, among the very contingencies against which a country's exports have to be secured by SFM. If under these circumstances, the SFM Agency is to throw up arms and disown responsibility, such an institution cannot be expected

to enjoy the trust of developing countries. It is difficult, therefore, to support a proposal for providing for the renegotiation of a contract, which would outrage its sanctity, remove from the Scheme the virtual assurance of export earnings to countries following agreed policies, and thus impair its appeal to them as well as the logical basis of the Scheme.

(c) Coverage of the Scheme.

13. Another question of some importance is that of broadening the scope of the Scheme to cover unforeseen increases in import expenditures. There is no logical reason to exclude this type of contingency, which is, often as unforeseen as export shortfalls, stems as much from the same causes and is no less unsettling in its effects on the integrity of development plans.

(d) Policy Understanding.

The question of policy understanding is, by means, ^{no} as intractable as it appears at first sight. A broad measure of agreement has already been reached in the Intergovernmental Group that the general policy understanding covering SFM should not exceed the preexisting one governing the provision of basic developmental finance and should preferably be expressed in terms of targets for a few major macro-economic variables. The Indian Delegation would strongly support this position and urge the Committee to resolve the question in this manner. For, the general understanding covering the provision of basic development finance is almost always very comprehensive. Therefore, no good purpose would be served by repeating it. On the other hand, while one must attach the highest importance to a prudent use of the Agency's resources for the most deserving purposes, it would clearly be inadvisable to extend the policy understanding to a point which leads to diminishing returns in terms of cooperation. One must be careful about not devising solutions to our problems which create more problems.

(e) Resource Requirements.

15. There is also the all-important question of resources for the Scheme. The IBRD staff had suggested that initially, \$300-400 mn. per year would be enough to meet the requirements of the Scheme. The ~~IBRD~~ IBRD staff explained the methodology of making these estimates in its report and further valuable clarifications were provided by the representative of IBRD to the Inter-Governmental Group. There have, however, been some misgivings in the minds of some delegates about the

estimates and, in fact, some of them have viewed the Scheme with alarm as an open-ended commitment. The Indian Delegation does not share these misgivings, but it entirely accepts the suggestion, which has been made in the Inter-Governmental Group, that it should be a fixed fund of \$300-400 mn. per year for the first 5 years and there should be recourse to some form of rationing, if in fact the estimate proves to be an underestimate. This proposal effectively settles the vexed question of resources.

16. It should be emphasized that support to this Scheme should not be interpreted to mean that this method of giving aid is preferred to the normal mode of providing basic developmental finance. By its very logic, Supplementary Financing ought to supplement basic development finance and not substitute for it. It is not a question of alternatives but of logical sequence.

A question of priorities.

17. It has sometimes been argued that as long as there is no guarantee of basic development finance, the establishment of a Supplementary Financing Scheme is not likely to serve any valuable purpose. Without detracting from the crucial importance of basic development finance, it may be pointed out that this argument fails to take into account the actual relative magnitudes of the variables in question. It is well known that, by and large, export earnings still constitute the bulk of the external resources required for financing the development plans of developing countries and it is only the gap between these earnings and the total import requirements that is not met by basic development finance. It, therefore, follows that the SFM is designed to plug the leaks in the larger and very important source of external finance for development. Further, adoption of SFM would have to be without prejudice to any other steps that may be taken to insure an adequate supply of external resources for development.

Effectiveness of SFM

18. It has sometimes been argued that SFM would deal with the symptom rather than the disease and in the process would prevent the treatment of the disease itself. It has been suggested that a lasting method of avoiding export shortfalls is to devise international commodity arrangements which would stabilise the earnings of developing countries from the

exports of primary commodities. It has also been suggested that by giving external assistance for shortfalls in exports, SFM would prevent or delay structural adjustments which are the only ultimate solution of the problem. It should be pointed out here that, if there is a persistent shortfall in the exports of a particular commodity during a given plan period, there is nothing in SFM to suggest that the assistance received under the Scheme would perpetuate the existing pattern of exports. Indeed, it is possible to bring about the required adjustments in the production pattern with the assistance to be received from SFM and common sense suggests that this would, in fact, be done, for the simple reason that in the next plan period the Agency will refuse to accept anything but estimates of lower export earnings from the commodity concerned. Obviously, the assistance to be received by an individual country from SFM, the total amount of which is not expected to exceed \$400 mn. per year, would be too small to create a temptation to continue with a wrong production pattern which is not warranted by changing international demand conditions. Secondly, it is difficult to accept that the setting up of international commodity arrangements would prove to be the ultimate solution of the problem of instability of export earnings. As has been observed in the Secretariat Document TD/II/C.3/2 "In the final analysis, the basic long-term solution to the problems of sluggish growth, instability and uncertainty of commodity exports may be found in a progressive diversification of the structure of production and exports in developing countries". It is, therefore, appropriate to conclude that by providing a respite to a developing country in the event of an export shortfall and enabling it to maintain the integrity of its development plan, the so-called shortterm solution of SFM would really create conditions for the adoption of the longterm solution of the problem which consists in the appropriate structural diversification of production and exports.

19. This leads ~~xx~~ us to our next and last point. The need to raise the flow of developmental assistance significantly can hardly be over-emphasised. The provision of basic development finance on an adequate scale must first be attended to. This would naturally include replenishment of IDA and some other matters. However, the fact that these matters are under consideration should not interfere with our taking a decision on the Supplementary Financing Scheme. Nor should the passing payments

difficulties of some of the leading donor countries be allowed to dilute or distort the Scheme. This plea is prompted by the very important consideration that short-term difficulties should not be allowed to colour and much less to distort decisions which have a longer-term effect. This has the valuable support of the report of the distinguished Secretary-General of UNCTAD, Dr. Prebisch (TD/3) entitled "Towards A Global Strategy of Development", which says "First and foremost, the replenishment of the International Development Association must be completed, but this does not by any means prevent the supplementary financing mechanism from being approved in principle without the need actually to contribute resources before 1970, because consideration of the technical details not yet disposed of and negotiation of the text of an agreement and its ratification by Governments will take time".

20. This Second Session of the UNCTAD will have done a useful service to the cause of the development of less developed countries if a concrete agreement on the need for and on the nature and scope of the Scheme of Supplementary Financing is reached at least in principle and further processing of the proposal is expedited.

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Agenda items 11(d) and 12(b)

THE ROLE OF EXPORT CREDITS
IN FINANCING THE DEVELOPMENT
AND PROMOTING THE EXPORTS
OF DEVELOPING COUNTRIES

Progress report by the Fiscal and Financial Branch of the
Department of Economic and Social Affairs of the United Nations.

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PREFACE

1. The first session of the United Nations Conference on Trade and Development discussed the potentialities of export credits both for financing exports of capital goods from developed to developing countries, and for promoting exports by the latter countries⁽¹⁾. These two aspects of the export credit question in fact constitute two separate topics and will be examined by the second session of the United Nations Conference on Trade and Development in connexion with two different agenda items. The first aspect will be considered under agenda item 12 entitled "Growth, Development Finance and Aid" and the second aspect will be studied under agenda item 11 entitled "Expansion and Diversification of Export of Manufactures and Semi-Manufactures of Developing Countries".

2. Prior to the first session of the Conference the question of export credits had been covered in reports on the international flow of private capital and the promotion of that flow⁽²⁾ prepared by the Fiscal and Financial Branch of the Department of Economic and Social Affairs of the United Nations. However, export credits as such had not been dealt with formally by any United Nations organ until 1962, when the Committee for Industrial Development at its second session,

(1) See Annex A.IV.14 to the "Final Act and Report" of the Conference United Nations Publication, Sales No. 64.II.B.11

(2) See "The International Flow of Private Capital 1956-1958" (United Nations publication, Sales No. 59.II.D.2) Chapter IV; "The Promotion of the International Flow of Private Capital", E/3325, 26 February 1960, paragraphs 74-76

requested the Secretariat to prepare a study of "measures and techniques in promoting exports of industrial equipment to underdeveloped countries". Two preliminary reports on that subject⁽¹⁾ were submitted to the Committee at its third and fourth sessions, held in 1963 and 1964 respectively.

3. In the latter year, the question of export credits was considered by the first session of the United Nations Conference on Trade and Development, Annex A.IV.14 to its Final Act recommended that the International Bank for Reconstruction and Development be invited:
- "1 - to make a study of the use (actual and potential) and terms of suppliers' credits and credit insurance, including rediscounting arrangements:
- a) for financing exports from developed to developing countries, taking account of the capacity of the latter to repay and of other effects on their economies and balance of payments;
 - b) as regards their effects on competition between the exports of developing and developed countries, as well as between the developed countries;
 - c) as a means of financing trade between the developing countries.
- "2 - to take account, in so doing, of the relevant observations, recommendations and suggestions submitted to the Conference including those in the draft recommendation by Spain and Tunisia annexed hereto.

(1) See "The provision of credits for the financing of imports of machinery and equipment into developing countries: Export credit systems and institutions" (E/C.5/26) and "Export credits for the financing of capital goods requirements of developing countries" (E/C.5/64).

"3 -- to identify the difficulties which arise or may arise, in particular as regards debt service, and to consider possible solutions;

"4 .. to submit the study to the United Nations at the earliest possible date together with any appropriate recommendations".

4. In view of the work on export credits already carried out by the United Nations Secretariat, the World Bank and the Secretariat felt that their tasks were largely complementary and agreed to co-operate closely in the preparation of their reports. On this basis, the final United Nations study, entitled "Export Credits and Development Financing": Part One "Current Practices and Problems"; Part Two: "National Export Credit Systems"⁽¹⁾, and the Bank's report entitled "Suppliers' Credits from Industrialized to Developing Countries" were submitted to the Committee on Invisibles and Financing Related to Trade at its second session (4-19 April 1967).

5. At that session ⁽²⁾, the representatives of several developing and developed countries requested the Secretary-General of the United Nations to keep the country studies contained in Part Two of the first report up to date. Several representatives also requested IBRD and the United Nations Secretariat to expand their reports to cover the use of export credits as a means of helping developing countries to

(1) Documents E/4274 and Add. 1

(2) See "Report of the Committee on Invisibles and Financing Related to Trade on its Second Session" (TD/B/116; TD/B/C.3/51) 25 April 1967, paragraph 56.

increase their exports and of financing trade among such countries. (1)

6. The question of export credits was subsequently examined by the Economic and Social Council in connexion with its consideration of the agenda item entitled: Financing of Economic Development. In resolution 1270 (XLIII) the Council, after noting with satisfaction the two afore-mentioned reports and the interest in the subject of export credits expressed by the Committee on Invisibles and Financing Related to Trade and the Council's Committee for Programme and Co-ordination, requested the Secretary-General of the United Nations :

- "a) to keep up to date the country studies included in Part Two of his report;
- "b) to consult with the appropriate national and international authorities on the best means of establishing the most practical national and regional schemes for the financing of capital goods exports by and among the developing countries, on the basis of the available experience with existing export credit schemes in developing and developed countries".

7. The purpose of this progress report is to inform the second session of UNCTAD of the steps which are being and will be taken to comply with the requests of the Committee on Invisibles and Financing Related to Trade and to implement Economic and Social Council resolution 1270 (XLIII) in connexion with both aspects.

.../

(1) A preliminary examination of this problem was contained in a special Annex to the above-mentioned report of the Secretary-General of the United Nations.

I

EXPORT CREDITS AND DEVELOPMENT FINANCING

8. While the normal function of export credits is to serve as an instrument for financing international trade, medium-term and especially long-term export credits have increasingly become an important source of external financing for the purchase of heavy machinery and equipment needed for development projects in developing countries. According to the latest estimate contained in the 1967 Report by the Chairman of the Development Assistance Committee of the Organization for Economic Co-operation and Development (OECD), the gross volume of medium-term and long-term export credits granted in 1966 by the 21 member countries of OECD amounted to approximately \$2,750 million ⁽¹⁾. Export credits have thus superseded traditional portfolio investment as the major source of private loan financing for economic development in developing countries, for bond issues for investment in developing countries amounted to only \$490 million in 1966 ⁽²⁾. The countries with centrally planned economies also provide export credits with maturities of from five to eight years as a significant element of their over-all aid programmes.

.../

(1) Source: OECD "Development Assistance Efforts and Policies 1967 Review", September 1967, page 62

(2) Calculated on the basis of data contained in "World Bank and IDA. Annual Report 1966/1967" pages 36 and 38.

9. As has been emphasized in the report of the Secretary-General of the United Nations on "Export Credits and Development Financing" (E/4274), export credits are a relatively expensive form of development financing. However, in an increasing number of instances their cost is reduced by government interest subsidies and refinancing from public funds, particularly in the case of long-term credits, which now can often be obtained at interest rates inferior to those prevailing on the international bond market. Many developed countries grant such subsidies and refinancing, and provide government export credit insurance enabling their exporters to expand export credit maturities until they are, in several cases, almost as long as bond maturities. Their willingness to do so may be explained by the fact that they find it easier to increase the volume of export credits than that of aid credits. This in turn follows from their view that export credits - particularly long-term credits combine growth-stimulating effects (which benefit their domestic economies) with development aid features (which benefit the developing countries).

In these circumstances, it is important that developing countries should make the best possible use of such export credits as may be available to them. These credits can play a useful role in the complex machinery of development financing, provided that their flows, terms and conditions are taken into account in a continuing review of the flows, terms and conditions of the aggregate external financing of all forms likely to be obtained by the recipient country.

10. Part Two of the Secretary-General's report which contains a survey of nineteen national export credit systems was prepared with a view to providing developing countries with information and guidance concerning the policies, rules, regulations and practices of export credit institutions. Pursuant to Economic and Social Council resolution 1270 (XIII) and the requests of the Committee on Invisibles and Financing Related to Trade, the above country studies will be brought up to date through direct consultations with officials of the export credit insurance and export credit institutions concerned. The first revision of the volume will be issued early in 1969, and subsequent revisions are expected to be published every two years. An effort will also be made to expand the range of countries covered as conditions may justify and resources may permit. In this way developing countries will be kept informed of changes in export credit insurance and export credit financing policies, terms and conditions in the various countries covered.

II

EXPORT CREDITS AND EXPORT PROMOTION: THE POSSIBLE ESTABLISHMENT
OF NATIONAL AND REGIONAL SCHEMES FOR THE FINANCING OF CAPITAL
GOODS EXPORT BY AND AMONG THE DEVELOPING COUNTRIES (agenda item 11d)

11. In order to find outlets for their present and projected industrial production, many developing countries have been paying increasing attention to the expansion of existing export markets and the opening up of new ones, particularly within the context of regional or sub-regional economic integration movements. In their drive to increase their exports and to diversify them specially by the inclusion of such non-traditional goods as chemicals, light engineering products, transport equipment and other capital goods, exporters in developing countries face keen competition from traditional suppliers in the developed countries. This competition is not confined to price, quality and delivery period but also extends to the capacity to offer deferred payment terms. Consequently suppliers in developing countries have been increasingly feeling the need for establishing export financing facilities that would enable them to offer credit maturities comparable to, if not identical with, those granted by exporters in other countries.

12. Some developing countries - Argentina, Brazil, India, Israel, Mexico and Pakistan - have already established export credit insurance and export credit schemes and others are contemplating the introduction of such schemes. The United Nations has been active in providing technical assistance to member Governments interested in establishing such schemes. Since the publication of the Secretary-General's report on "Export Credits and Development Financing" additional requests have been received for such assistance.

13. If such schemes have as yet been introduced in only a few of the most advanced developing countries, the reason is, as noted in the Annex to Part One of the Secretary-General's report, that their operation presents special problems in developing countries. The volume of exports which would be available for insurance in most developing countries is still relatively small and it might therefore be difficult for an insurance scheme to spread risks adequately, maintain an effective credit information service and cover its administrative costs. Premiums cannot be set too high, since the added cost might increase the sale price of the goods to an uncompetitive level or, if the exporter bore the cost himself in order to secure the order, reduce his margin of profit, which may already be dangerously small. If over a certain period, premiums should fail to cover administrative costs and claims, governments would be obliged to make up the deficit with a resulting strain on their already limited financial resources.

14. Furthermore, even if export credit insurance is available, exporters may still face serious problems when seeking to finance their export credit transactions. The provision of such financing depends on banking resources being available for the required period at acceptable interest rates. The banking resources available in developing countries may be more or less sufficient to meet foreseeable short-term export credit financing requirements, although the high money-market interest rates prevailing in most developing countries may impede their effective use. In the case of export transactions involving credits with maturities

exceeding one year, however, exporters in developing countries may find it difficult to obtain financing even if they have insurance coverage, for such medium-term credit facilities as exist are often devoted to the financing of relatively high cost housing and construction projects at very high interest rates.

15. In view of the special problems involved in introducing and operating export credit insurance and export credit schemes on a national basis, in developing countries, the Fiscal and Financial Branch will, in the course of its research and consultations relating to existing schemes in developing countries, devote particular attention to an analysis of their effectiveness and economic justification, with a view to their possible improvement and practical adaptation to other developing countries.

16. Although this analysis of the existing schemes may show that in certain developing countries national schemes could be established on a self-supporting basis, and that in others the establishment of government-subsidized schemes might well be economically justified, it is probable that there are many developing countries for which neither of these alternatives would be relevant. For those countries, the best solution might therefore be the establishment of sub-regional or regional schemes. These schemes could be coordinated with any existing national schemes and would benefit all members by making it possible to spread the risks and lower administrative costs. In the case of areas moving towards economic integration, the establishment of such schemes would be facilitated by the impetus towards economic integration, and would in turn give added momentum to the economic integration movement.

Careful consideration will, nevertheless, be needed in the case of each sub-regional integration area, to determine whether its resources and requirements are likely to be adequate for supporting a sub-regional scheme of its own, taking into account the possible burden of government subsidization on the one hand, and the potential producing and exporting capacity of the area in manufactured or semi-manufactured goods on the other.

17. At the regional level, a first step in facilitating export credit financing has been taken by the Inter-American Development Bank, which, starting on 1 January 1964, has provided refinancing facilities for medium-term export credits for intra-Latin American exports of capital goods. Regional and sub-regional development banks have indeed a special interest, under their charters, in the expansion of external trade of member countries ⁽¹⁾. The enquiry entrusted to the Fiscal and Financial Branch will, therefore, be carried out in close consultation with these, as with other interested development finance institutions.

18. Under Economic and Social Council resolution 1270 (XLIII), the Secretary-General will submit to the Council at its forty-fifth session in the summer of 1968 a progress report on his enquiry, at which time it is hoped to indicate especially the initial reactions

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(1) See e.g. the Preambles of the Charters establishing the African and Asian Development Banks, Article I of the Agreement Establishing the Inter-American Development Bank and Chapter I of the Agreement Establishing the Central American Bank for Economic Integration.

of the multinational financial institutions and the national Governments concerned. This progress report, as well as such concrete proposals for the establishment of export credit and export credit insurance schemes as may emerge from this enquiry at the national, regional or indeed world wide level, will also be at the disposal of the Committee on Invisibles and Financing Related to Trade.