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THE WORLD BANK

Washington, D.C.

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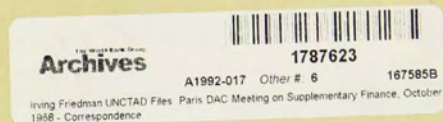
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Friedman UNCTAD Files - Paris DAC Meeting on
Suppl. Finance

Oct, 1968

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Mr. N. Sarma

November 15 1968

Irving S. Friedman

Supplementary Finance Scheme

Would you give some thought as to whether the memorandum to the Board on the Supplementary Finance meeting might prejudice future developments, particularly hardening of government attitudes.

Perhaps it might be better to send just the official mimeographed document. What do you think?

ISF

OFFICE MEMORANDUM

NOV 18 1968

TO: Mr. N. Sarma

DATE: November 15 1968

FROM: Irving S. Friedman

SUBJECT: Supplementary Finance Scheme

(Not likely) → Would you give some thought as to whether the memorandum to the Board on the Supplementary Finance meeting might prejudice future developments, particularly hardening of government attitudes.

Perhaps it might be better to send just the official mimeographed document. What do you think?

1) Our practice has been to send to the Board our reports: (first three sessions)

2) We may omit para 5 - references to individual Comby STs - if you wish. N, in more general terms

ISF

Sarma 11/15

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: November 8, 1968

FROM: N. A. Sarma

*Sarma*SUBJECT: Intergovernmental Group on Supplementary Financing

Please refer to Mr. Fowler's suggestion and your note of November 6.

As S.F. is an item for the informal seminars with the Board on Commodity Stabilization, it may be useful to send this report to the E.D.'s. I have revised the text for the purpose; please see the papers below.

You may like to mention also that a background paper on the subject of S.F. will be circulated for the proposed informal discussions later.

*Confusing between SF and SFM ?
Please adjust - SF*

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

Nov. 6 1968

Mr. Sarma:

For your reaction, please.

ISF

Irving S. Friedman

Sarma 11/8.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

Mr. Friedman:

Should a report on this subject go to the Executive Directors? If so, is the report in the form prepared by Mr. Sarma appropriate to the purpose?



Donald D. Fowler

November 6, 1968

INTERGOVERNMENTAL GROUP ON SUPPLEMENTARY FINANCING

Attached for information is ^{the} report on the Fourth Session of the Intergovernmental Group on Supplementary Financing convened in Geneva from October 21 to 25, 1968. This has been prepared by Mr. N. A. Sarma who attended the session from the Bank Staff.

NT - 22 (and others)
revised -
JF

Intergovernmental Group on Supplementary Financing

Fourth Session: Geneva: October 21-25, 1968

1. This first session of the expanded group was mainly preparatory for the next session to be held during June 23 - July 4, 1969. Mr. Mermolja of Yugoslavia continues as Chairman, and Mr. Dunkel of Switzerland is the Vice-Chairman-cum-Rapporteur.

2. It would seem to be the intention of the Group to conclude its work at the next session. The program of work agreed upon at this session requests the UNCTAD Secretariat, Bank Staff, and Fund Staff to provide additional material and advice. Any written material is to be furnished by the end of March, 1969.

3. Among the questions that directly involve the staff of the Bank are those relating to cost estimates, and the relationship between Supplementary Finance and Fund's Compensatory Finance Facility. The Bank Staff would look at the cost estimates again, using available data for more recent years.

4. The so-called ^{proposal} ~~simplified~~ scheme that had been put forward earlier by the representative of the Federal Republic of Germany, as well as refinancing the Fund's Compensatory Financing Facility, were referred to. Additional material and analysis are to be furnished by the UNCTAD Secretariat (in consultation with whoever proposed these ideas) for the next session. The Bank Staff representative stated at the meetings that refinancing CFF did not provide an alternative approach to SF for meeting the purposes in view.

5. The discussion on points of substance was brief and along the same lines as at UNCTAD. Representatives of developing countries (in particular, Venezuela, Chile, Nigeria, Ghana, Ugands (observer), India, Pakistan, Ceylon and Yugoslavia) did not think that further studies were called for; they urged acceptance of the Bank Staff Scheme, though some modifications could be considered. Sweden also continued to take this position, though they did not argue against further work. The U.K. reminded the Group that she was a sponsor of the Resolution, but indicated an open mind as to the precise approach; more than anyone else, the U.K. representative referred to the relationship between CFF and SF. The U.S.A. seemed to incline toward a modified version of the simplified scheme, and also spoke of the refinancing possibility. France again stated that stabilization of commodity prices was the ~~real approach~~ ^{basic} ~~approach~~.

6. The next session is likely to conclude the work of the Group. The final report of the Group would be considered at the Ninth Session of the Trade and Development Board during August 26 - September 12, 1969.

7. The report of this session (provisional text) is attached hereto. Questions which concern us are as follows:

(i) Could the Agency's consultations within the framework of the SFM Bank Staff Scheme be fitted into the consultations normally conducted by the Bank with developing countries. Would any adaptations be necessary?

(ii) To what extent could the proposed SFM Bank Staff Scheme be implemented by the Bank and the IDA, within their existing articles of agreement, if the Executive Directors so agreed and the necessary funds were made available?

(iii) To what extent would the Bank staff be able, despite the fact that much depends on judgement, to revise the cost estimates contained in its study by using more recent statistical data and taking account of developments which have occurred since the study was prepared (or by allowing for mid-term revisions?) Is there any practical possibility pursuing an alternative method of estimating the costs of the Scheme, without devoting undue additional work? e.g. by conducting a study of the amounts which would have been required to protect the development plans of a limited number of countries which have undergone a particularly marked export shortfall over the last five year period. (While we may look into the latter part of the question, it is only the first part, i.e. on the lines of our own earlier study, that we have to attend to.)

(iv) How would the CFF method of assessment of export shortfalls differ in practice from that of SFM when applied over a five-year period? Would CFF assessment be self-correcting through adjustment over a period of time to a lower level of export earnings? Would the SFM method be brought closer to those of the assessment of shortfalls yielded by the CFF method if mid-term revision was carried out under SFM? How much practical difference would there be in the case of countries not having a five-year plan or having a plan with annual revisions?

(v) If a country qualifies simultaneously for CFF and SFM, what would the practical consequences be of such a situation as regards the provision of funds because of the divergencies between the rates of interest payable, the length of the credit period, the limits on any single drawing and the policy conditions? Would there be any conflict between the co-operative action envisaged under the CFF and any measures of adjustment envisaged under the SFM scheme? To what extent would obtaining help under SFM be conditional upon prior use of CFF? Would a joint committee of the Fund and the Agency or a similar institutional arrangement be feasible?

We are also requested to give our viewpoint about refinancing CFF as a means of SF.

8. (iv) and (v) are addressed to the Fund also; there are others addressed to the Fund only. The Fund Staff representative stated they would examine the question of refinancing CFF, and cost thereof.

*INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION*

CONFIDENTIAL

SENIOR STAFF MEETING

SSM/A/68-9

October 30, 1968

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INTERGOVERNMENTAL GROUP ON SUPPLEMENTARY FINANCING

Attached, for the information of the Senior Staff, is Mr. Sarma's report on the fourth session of the above body, referred to by Mr. Friedman at the October 29 meeting.

C. H. Davies
Secretary

Distribution:

Senior Staff, Bank and IFC

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: October 28, 1968

FROM: N. A. Sarma *Sarma*SUBJECT: Intergovernmental Group on Supplementary Financing
(Fourth Session: Geneva: October 21-25, 1968)

1. This first session of the expanded group was mainly preparatory for the next session to be held during June 23 - July 4, 1969. Mr. Mermolja of Yugoslavia continues as Chairman, and Mr. Dunkel of Switzerland is the Vice-Chairman-cum-Rapporteur.
2. It would seem to be the intention of the Group to conclude its work at the next session. The program of work agreed upon at this session requests the UNCTAD Secretariat, Bank Staff, and Fund Staff to provide additional material and advice. Any written material is to be furnished by the end of March, 1969.
3. Among the questions that directly involve the staff of the Bank are those relating to cost estimates, and the relationship between Supplementary Finance and Fund's Compensatory Finance Facility. Both at the DAC Working Party meeting on the 18th October (which also I had attended), and at the Group's session, I restated the nature of the cost estimates in the Bank Staff Study. However, under considerable insistence of some members of the Group, I agreed that the Bank Staff would look at the estimates again, using available data for more recent years.
4. The so-called simplified scheme that had been put forward earlier by the representative of the Federal Republic of Germany (and referred to in the Report of the Group), as well as refinancing the Fund's Compensatory Financing Facility, were referred to at the DAC Working Party meeting, and at the Group's session. Additional material and analysis are to be furnished by the UNCTAD Secretariat (in consultation with whomever proposed these ideas) for the next session. I again stated at the meetings that refinancing CFF did not provide an alternative approach to SF for meeting the purposes in view.
5. The discussion on points of substance was brief and along the same lines as at UNCTAD. Representatives of developing countries (in particular, Venezuela, Chile, Nigeria, Ghana, Uganda (observer), India, Pakistan, Ceylon and Yugoslavia) did not think that further studies were called for; they urged acceptance of the Bank Staff Scheme, though some modifications could be considered. Sweden also continued to take this position, though they did not argue against further work. The U.K. reminded the Group that she was a sponsor of the Resolution, but indicated an open mind as to the precise approach; more than anyone else, the U.K. representative referred to the relationship between CFF and SF. U.S.A. seemed to incline toward a modified version of the so-called simplified scheme, and also spoke of the refinancing possibility. Canada appeared to suggest a compromise between the Bank Staff Scheme and the proposal of the representative of Germany. France continued to assert that stabilization of commodity prices is the real approach.

6. It is my view, partly based on the discussions at this session of the Group, that the next session would conclude the work of the Group. As such, for S.F. this would be the important session; the final Report of the Group would be considered at the Ninth Session of the Trade and Development Board during August 26 - September 12, 1969. (This session of the Board may be convened at ministerial level.) Accordingly, we should soon start preparation of whatever additional material we want to present, engage in useful discussions with interested governments, and also formulate our own approach for the 1969 meetings.

7. Please refer to the papers attached hereto. Questions which concern us are as follows:

(i) Could the Agency's consultations within the framework of the SFM Bank Staff Scheme be fitted into the consultations normally conducted by the Bank with developing countries. Would any adaptations be necessary?

(iii) To what extent could the proposed SFM Bank Staff Scheme be implemented by the Bank and the IDA, within their existing articles of agreement, if the Executive Directors so agreed and the necessary funds were made available?

(iv) To what extent would the Bank staff be able, despite the fact that much depends on judgement, to revise the cost estimates contained in its study by using more recent statistical data and taking account of developments which have occurred since the study was prepared (or by allowing for mid-term revisions?) Is there any practical possibility pursuing an alternative method of estimating the costs of the Scheme, without devoting undue additional work? e.g. by conducting a study of the amounts which would have been required to protect the development plans of a limited number of countries which have undergone a particularly marked export shortfall over the last five years period. (While we may look into the latter part of the question, it is only the first part, i.e. on the lines of our own earlier study, that we have to attend to.)

(v) How would the CFF method of assessment of export shortfalls differ in practice from that of SFM when applied over a five-year period? Would CFF assessment be self-correcting through adjustment over a period of time to a lower level of export earnings? Would the SFM method be brought closer to those of the assessment of shortfalls yielded by the CFF method if mid-term revision was carried out under SFM? How much practical difference would there be in the case of countries not having a five-year plan or having a plan with annual revisions?

(vi) If a country qualifies simultaneously for CFF and SFM what would the practical consequences be of such a situation as regards the provision of funds because of the divergencies between the rates of interest payable, the length of the credit period, the limits on any single drawing and the policy conditions? Would there be any conflict between the co-operative action envisaged under the CFF and any measures of adjustment envisaged under the SFM scheme? To what extent would obtaining help under SFM be conditional upon prior use of CFF? Would a joint committee of the Fund and the Agency or a similar institutional arrangement be feasible?

We are also requested to give our viewpoint about refinancing CFF as a means of SF.

8. v and vi are addressed to the Fund also; there are others addressed to the Fund only. Mr. Edgar Jones agreed that the Fund Staff would examine the question of refinancing CFF, and cost thereof. It is for consideration in what manner the Fund and Bank Staffs could collaborate.

Intergovernmental Group on Supplementary Financing
Fourth Session

INTERIM REPORT TO THE EIGHTH SESSION OF THE TRADE AND
DEVELOPMENT BOARD AND THE THIRD SESSION OF THE COMMITTEE
ON INVISIBLES AND FINANCING RELATING TO TRADE

Organizational matters

Note by the Rapporteur

1. The Group held meetings from 21 to October 1968.
2. At its 46th meeting, the Group adopted its agenda as contained in document TD/B/C.3/AC.3/24 (Annex I).
3. At its 46th meeting, the Group re-elected Mr. Mermolja (Yugoslavia) as its Chairman.
4. At its 48th meeting, the Group elected Mr. A. Dunkel (Switzerland) as its Vice-Chairman-cum-Rapporteur in succession to Mr. Jo Saxe (United States of America).
5. Membership and attendance The following members of the Group were represented at the fourth session: Argentina, Australia, Brazil, Canada, Ceylon, Chad, Chile, Federal Republic of Germany, France, Ghana, India, Italy, Japan, Nigeria, Pakistan, Poland, Sweden, Switzerland, Tunisia, United Arab Republic, United Kingdom of Great Britain and Northern Ireland, United States of America, Uruguay, Venezuela, Yugoslavia.
6. The following States members of the Conference sent observers to the session: Austria, Bolivia, China, Colombia, Denmark, Ecuador, Finland, Indonesia, Israel, Jamaica, Netherlands, Norway, Paraguay, Peru, Philippines, Republic of Korea, Republic of Viet-Nam, Romania, Spain, South Africa, Syria, Thailand, Turkey, Uganda.
7. The International Bank for Reconstruction and Development and the International Monetary Fund were also represented.
8. The following other inter-governmental bodies were represented: The Commission of the European Community and the Organization for Economic Co-operation and Development.
9. The International Chamber of Commerce sent a representative.
10. The list of participants is attached as Annex II.

Intergovernmental Group on Supplementary Financing
Fourth session

Draft programme of work agreed at the fourth session of the
Inter-Governmental Group on Supplementary Financing^{1/}

(Note by the Rapporteur)

I.

1. The Group agreed, following the proposals of the Chairman, that it would concentrate on reviewing the issues before it and on deciding what further material, information and comment would be required in order to enable it to formulate conclusions on measures of Supplementary Finance at its next session.
2. Nevertheless, some delegations expressed views on questions of substance which will be taken into account in the Group's further work.
3. At all events, the Chairman of the Group would inform the appropriate organs of UNCTAD of the progress of its work.
4. Among the issues that the Group or some of its members wish to see considered at the next session of the Group some seem to need further examination or preparatory work by the UNCTAD secretariat, the staff of the Bank or the Fund, as may be appropriate. In order to provide guidance for this work the following list of questions has been established:

^{1/} The following countries have joined the Group in accordance with the decision reached at the 172nd meeting of the Trade and Development Board at its seventh session: Afghanistan, Australia, Canada, Chad, Chile, Italy, Nigeria, Pakistan, Switzerland, Tunisia, Uruguay and Venezuela.

Programme of work agreed at the fourth session of the Inter-
Governmental Group on Supplementary Financing

A. Questions for further examination relating to the World Bank Staff Scheme^{1/}

The group requests the Secretary-General to invite the IMF and IBRD to examine those of the following questions with which they are concerned and to make available their comment to the Group at or before its fifth session. On certain other questions further comment is requested of the Secretariat. It is requested any written material should be submitted by 31st March, 1969.

- (i) Could the Agency's consultations within the framework of the SFM Bank Staff scheme be fitted into the consultations normally conducted by the Bank with developing countries? Would any adaptations be necessary? (Bank)
- (ii) To what extent could the study included in doc.(TD/B/C.3/AC.3/23) be further developed in order to illustrate more clearly the adjustment measures by those countries in which substantial export shortfalls occurred? Can these case studies indicate the minimum assistance that would have been required to maintain imports considered essential to the development program? (UNCTAD)
- (iii) To what extent could the proposed SFM Bank Staff scheme be implemented by the Bank and the IDA, within their existing articles of agreement, if the Executive Directors so agreed and the necessary funds were made available? (Bank)
- (iv) To what extent would the Bank staff be able, despite the fact that much depends on judgement, to revise the cost estimates contained in its study by using more recent statistical data and taking account of developments which have occurred since the study was prepared (or by allowing for mid-term revisions?). Is there any practical possibility pursuing an alternative method of estimating the costs of the Scheme, without devoting undue additional work?

^{1/} Some members felt that many of the questions related to the Bank staff scheme would also be relevant to the other proposals.

e.g. by conducting a study of the amounts which would have been required to protect the development plans of a limited number of countries which have undergone a particularly marked export shortfall over the last five years period. (Bank)

- (v) How would the CFF method of assessment of export shortfalls differ in practice from that of SFM when applied over a 5-year period? Would CFF assessment be self-correcting through adjustment over a period of time to a lower level of export earnings? Would the SFM method be brought closer to those of the assessment of shortfalls yielded by the CFF method if mid-term revision was carried out under SFM? How much practical difference would there be in the case of countries not having a 5-year plan or having a plan with annual revisions? (Bank, Fund)
- (vi) If a country qualifies simultaneously for CFF and SFM what would the practical consequences be of such a situation as regards the provision of funds because of the divergencies between the rates of interest payable, the length of the credit period, the limits on any single drawing and the policy conditions? Would there be any conflict between the co-operative action envisaged under the CFF and any measures of adjustment envisaged under the SFM scheme? To what extent would obtaining help under SFM be conditional upon prior use of CFF? Would a joint committee of the Fund and the Agency or a similar institutional arrangement be feasible? (Bank, Fund)
- (vii) Would the Fund staff be prepared to furnish its views on harmonization of growth and financial stability and to explain its policy as regards the consultation procedures and the use of its resources? (Fund)

Questions related to the study of other proposals

- (i) Would the secretariat undertake to analyze further Scheme A in Chapter IV of Report and possible variants thereof, after such consultations as it deems necessary to enable the Group at its next session to address itself to the following questions:
- the nature of the guide-lines to be used in determining ex post what would have been the reasonable expectations at a point of time in the past, with reference to which the shortfall would be measured.^{1/}

^{1/} The shortfall in exports estimated according to the guide-line should be compared with that computed by the IMF for purposes of CFF. A few illustrative examples might also be given of how the proposed method, as compared to a CFF computation, would operate in practice.

- the considerations to be taken into account in arriving at a decision on the amount and terms of assistance.
 - what initial amount of resources would be needed to operate an adequate scheme?
 - The appropriate administrative arrangements (UNCTAD)
- (ii) Refinancing of the CFF: The question raised under A vi may also be considered in relation to the refinancing of the CFF. (Bank, Fund)

The following questions are also relevant:

- (iii) The nature of the determination to be made in establishing eligibility for assistance under the proposal, having regard to the respective objectives of Recommendations A.IV.17 and A.IV.18, Part A, and the different basis of assessment of shortfalls which may be appropriate under each Recommendation.
- (iv) The amount of funds required to achieve the objectives of the proposal.
- (v) The possibilities of refinancing which may be available under the CFF, and the possible effects on the liquidity of the Fund.
- (vi) The terms which may be appropriate to the refinancing proposed.

DAC
NOV 7 1968

Paris,
October 31, 1968

Mr. McNamara

Richard H. Demuth

DAC High-Level Meeting

1. The DAC High-Level Meeting has just been concluded and I thought it might be useful to sketch the highlights for you. A full report is being prepared and will come to you upon my return.
2. Most of the discussion was general and fairly routine and your decision not to attend personally was probably wise. I was quite encouraged, however, at the statements made by most of the Ministers and aid administrators from the smaller donor countries as to the size and composition of their national development assistance programs and of the widespread public support for them. Most of them have adopted the 1% of GNP target as a real objective, to be reached by annual increases in aid allocations significantly above projected increases in GNP. Even the U.K. has kept its assistance program intact in substance, taking into account contributions to the food aid program under the Kennedy Round agreement. And several countries - Canada and the Scandinavian countries in the lead - have adopted three- to five-year programs, under which they can make current commitments against future year allocations. Under these programs, as a rule, there is no lapsing of appropriations if not committed within the current fiscal year.
3. There was widespread support for IDA, many expressions of hope that the U.S. would ratify promptly in 1969, and some expressions of support for interim contributions by the other donors. Maurice Strong announced the action which Canada was proposing to take, the U.K. said that it was considering carefully your request for an interim contribution, and the Italians also expressed a readiness to consider similar action. These statements were all made in the course of general debate and there was no formal or extended discussion of this matter, but clearly the climate is favorable for Denis' further efforts. In private conversation, the Germans indicated that the possibility of an interim contribution by them was not precluded - although they emphasized that their legislative authority to contribute to the IDA replenishment would lapse by the end of 1968.
4. The Austrian delegate said that his country had made an arrangement with the Inter-American Development Bank under which the IADB was borrowing funds in the Austrian capital market with the Austrian government subsidizing a portion of the interest cost. He knew no details of the arrangement - but I mention it because Siem or Bob Cavanaugh may want to explore the matter to see if it is a useful precedent for us.

To: Mr. McKamara

- 2 -

Paris,
October 31, 1968

5. The Pearson Commission was frequently mentioned and generally with approval. Rene Larre, for the French, however, was somewhat sarcastic about the Commission, referring to it as a "private body" concerning which governments had not been consulted and with which, therefore, governments did not have to concern themselves. However, the French agreed that the DAC Secretariat should cooperate with the Commission, subject to an agreement on rules for such cooperation which would safeguard against disclosure of confidential information. This matter will be further discussed within the DAC. Minister Udink of Holland made a somewhat cryptic statement expressing the hope that the Commission would not become an "Anglo-Saxon" operation. In private conversation, he explained that he was referring to Pearson's failure to appoint Pierre Moussa instead of Marjolin and stressed the importance he attached to getting French support for the Commission's work. He offered his own full cooperation and said that if he could at any time be of service to the Commission, he would be glad to be called upon.

6. At the private luncheon of heads of delegation which concluded the meeting, the main subject discussed was population control. Almost everyone agreed on the overriding importance of the problem and on the need for more research of all kinds, including bio-medical research. There was less agreement on how effective external aid agencies could be in this field. Several speakers expressed the view that international agencies were in a better position than national governments to provide acceptable help. The Bank's entry into this field was welcomed. The OECD Development Centre is also undertaking a research program on population control issues, the precise nature of which has not yet been formulated. The Development Centre is organizing a seminar of leading population experts in December to advise them on what kind of research they should do and I have asked Arthur Karasz to try to arrange for us to be invited.

7. Finally, at the luncheon Mr. Kristensen, Secretary General of OECD, expressed regret at the decision announced in your Annual Meeting speech to shift the geographical emphasis of Bank Group financing so that India and Pakistan would get relatively less and Latin America and Africa relatively more. In his view, the Indian subcontinent was already getting less than its fair share of Western aid despite the urgency of the needs there and he hoped bilateral donors would not make a similar shift. I explained the considerations which had led to this decision and I believe there was general understanding of them - but also general agreement as to the urgency of India's, and to a lesser extent Pakistan's, aid requirements.

cc: Members of President's Council

RHD:tf

OFFICE MEMORANDUM

TO: Mr. Friedman

DATE: January 22, 1968

FROM: Richard H. Demuth

SUBJECT: DAC Working Party on UNCTAD Issues

Attached is a letter from Wishart concerning the January 11/12 meeting of the DAC W/P on UNCTAD Issues, together with a Wishart memo on the meeting; there is also attached a more detailed report by Ziegler, and a note by the Chairman of the W/P on Supplementary Financial Measures. The Wishart letter and memo have been sent to Mr. Woods and all the members of the President's Council. The Wishart and Ziegler memos and the Chairman's Note have also been sent to Kamarck and Sarma/de Fontenay.

Headquarters:
Washington, D.C., U. S. A.



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Cable Address - INTBAFRAD PARIS

INTERNATIONAL DEVELOPMENT ASSOCIATION

Cable Address - INDEVAS PARIS



EUROPEAN OFFICE:
4, AVENUE D'IÉNA, PARIS (16^e) - FRANCE
Telephone - 553-2510

January 16, 1968

Dear Dick:

DAC Working Party on UNCTAD Issues -
Meetings on January 11 and 12, 1968

Ziegler and I attended the above meetings. They were very full meetings since these were the last opportunities for the Working Party to finalize the discussions on the different issues before UNCTAD II.

I enclose copies of a note by Ziegler in which he lists the various subjects discussed at the meetings and gives brief résumés of these discussions. Ziegler is also arranging for the relevant documents, or at least those you have not already had, to be attached. I also enclose copies of a note to Files I have made reporting on three matters of particular interest to the Bank.

I should just like to say one further word regarding Supplementary Financing. To my mind it is quite clear that the DAC member countries are searching around for every possible reason which will justify them in not taking any decision on this matter. You will see the points on which they feel they need further information. In particular, they have come back to the question of "the relative importance of export shortfalls compared with other external factors which might disrupt development". They are now pressing for fuller information than was given by Sarma at the last meeting. At some stage, we shall have to justify our stand by preparing a note explaining why "conceptual and statistical difficulties" prevent this information being produced. I believe we should try and do this now.

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

./.



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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Telephone - 553-2510

January 16, 1968

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Meetings on January 11 and 12, 1968
DAC Working Party on UNCTAD Issues -

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I should just like to say one further word regarding Supplementary Financing. To my mind it is quite clear that the DAC member countries are searching around for every possible reason which will justify them in not taking any decision on this matter. You will see the points on which they feel they need further information. In particular, they have come back to the question of "the relative importance of export shortfalls compared with other external factors which might disrupt development". They are now pressing for fuller information than was given by Sains at the last meeting. At some stage, we shall have to justify our stand by preparing a note explaining why "conceptual and statistical difficulties" prevent this information being produced. I believe we should try and do this now.

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

A.

Development Assistance Committee - 101st Session

These meetings are being held on January 17 and 18 and I enclose two copies of the Draft Agenda (DAC/A(68)1) and also two copies of the Secretary General's report on "The Food Problems of Developing Countries" [(CES(67)57(1st Rev.)]. We shall send the other documents mentioned on the Agenda (or at least such as are made available to us) later.

Yours,


G. C. Wishart

Encls.

OFFICE MEMORANDUM

TO: Files

DATE: January 15, 1968

FROM: G. C. Wishart SUBJECT: Working Party on UNCTAD Issues
Meetings on January 11 and 12, 1968

1. Mr. Ziegler and I attended the above Working Party meetings and Mr. Ziegler is preparing a full note on the proceedings. In this memorandum I report on three matters of particular interest to the Bank.

2. IDA Replenishment

The Chairman had inserted in the Agenda an item: "Implications for UNCTAD II of the State of Discussion on IDA Replenishment". The Chairman asked me if I could make a statement. I said:

- a) As the Agenda item indicated, the question of IDA Replenishment is still under discussion. I understood the desire of the Working Party to be informed as to the status of the discussions, but the Working Party would not expect me to make anything but a very general statement. I referred to the meetings of Deputies under the chairmanship of Mr. Knapp and mentioned that a note had been circulated in draft of the last meetings held on December 18 and 19, but emphasized that this note was still in draft and awaited the approval or comments of the participants.
- b) Progress had been made in clearing away various policy issues regarding the operations of IDA and I understood that satisfactory understandings had been reached on all these points.
- c) Two major items still required settlement, namely, what level of replenishment could be agreed and also agreement on measures to safeguard the position of countries faced with balance of payments difficulties. I said it would neither be useful nor appropriate for me to go into details on these matters since they are at present under discussion in another forum. However, I understood that considerable progress had been made in refining these issues with a view to ultimate settlement based on decisions by Ministers.

- d) I could not hazard an opinion as to when these issues would be resolved but I could assure the Working Party that the urgency of the position was fully appreciated both by IDA and, I believed, by the Part I countries concerned.

3. The Chairman asked for any comments by members of the Working Party but none were forthcoming. The Chairman summed up by stating that all members of the Working Party noted the situation but had no particular views to put forward. Everyone hoped that this matter would be quickly resolved.

4. Supplementary Financing

A very full discussion took place on this item with particular reference to a revised note distributed by the Chairman of the Working Party [DAC/UN(67)35(1st Rev.) dated January 47]. The discussion mainly revolved around paragraph 3 of that note in which five alternatives are set forth and also around paragraph 5 in which the Chairman set out items on which he believed there might be a common factor of agreement.

In the course of the discussion, the following points were made:

- a) Japan: The present international financial position is not conducive to agreement on a scheme of Supplementary Financial Measures.
- b) Germany: A clear premise for a scheme must be proof that export shortfalls are disrupting development. This has not been proved.
- c) United States: Serious concern was expressed on certain aspects of the Bank scheme and the US Government is not in a position either to accept or reject the scheme. It is not yet ready to say that such a scheme is required.
- d) France: The French representative opened by saying that his country could not go along with a recommendation unless it was a recommendation condemning the scheme. On being pressed as to whether he would oppose continuation of discussions in the Intergovernmental Group, the French representative stated that he had no firm position on that narrow point as yet.
- e) Netherlands: The Netherlands' representative drew attention to the link between supplementary financing and basic financing. He urged that aid giving

countries should be prepared to "cash in on" the important concession that LDCs would be prepared to discuss "policy understandings".

- f) Sweden: The Swedish representative was in favour of supporting a recommendation in favour of the Bank Staff Scheme. Some problems must be studied further but he considered that the Bank study showed that the scheme could be workable and compatible with other considerations.
- g) Australia: The Australian representative felt there was no real agreement on the Bank scheme and felt that the damage might be less if this was stated honestly at UNCTAD rather than an attempt being made to drag on consideration of the scheme by means of various study groups. If this view was not shared by other DAC countries, then the Australian representative would favour a recommendation along the lines of paragraph 3 (v) of the Chairman's Note.
- h) United Kingdom: The United Kingdom representative believed that the modified form of the Bank scheme might be feasible and would meet a real need. Before this could be finally ascertained, the studies on the Rio Resolutions must be awaited. There must also be further study of the relationship between the Bank scheme and the IMF Compensatory Financing Facilities. He also said that he could not accept the statement made at the last meeting by the Bank representative (Mr. Sarma) that no further information can be produced on the relative importance of export shortfalls compared with other external factors which might disrupt development.
- i) Canada: The Canadian representative said that his Government would be prepared to go along with further studies of the scheme.
- j) Germany: In a later intervention the German representative pressed for serious discussion of alternative schemes. He also commented unfavourably on the fact that, at the Intergovernmental Group, the notion of a "policy package" had been reduced to one of a "policy understanding".
- k) Norway: The Norwegian representative said that his Government could go along with any compromise solution. He stressed, however, that IDA replenishment came first.

5. In summing up the Chairman made the following points:

- (i) There was no possibility of reaching a decision on the substance of a supplementary financing scheme at UNCTAD II.
- (ii) Many important questions still remained to be resolved. He believed that study of these questions would lead to substantial amendment of the Bank scheme. Among these issues, the questions of export projections and policy understandings were crucial.
- (iii) Further information is needed, especially on the point of the importance of export shortfalls and also on the relationship with the IMF facilities. The outcome of the Rio studies is most important and he hoped that the Bank and Fund would be able to complete these studies by next September.

I did not intervene in the discussion except to indicate that I would pass on the views expressed to Washington. In a talk I had with the Chairman after the meeting, the Chairman stressed the importance of the Bank explaining, in more detail, why it could not supply information on the relative importance of export shortfalls. I expressed regret that this matter had not been taken up in more detail with Mr. Sarma when he had exposed himself to questioning both at the Intergovernmental Group and at the last Working Party meeting. The Chairman acknowledged this point but asked that at least the Bank should prepare a Note explaining why "conceptual and statistical difficulties" prevented the information required being forthcoming.

6. Mr. Woods's Stockholm Speech - "Grand Assize"

Under other business, the Chairman raised the question of Mr. Woods's suggestion, in his Stockholm speech, that a "Grand Assize" of experts be initiated. There was a certain amount of uninformed discussion regarding this initiative and references were made to a proposal by the Netherlands (I think at UN) for a "development charter" and also to studies by the UN to plan the lines of the "second development decade". I explained that, having only just been informed that this subject matter was to be raised I was not in a position to report on responses to Mr. Woods's initiative, except that I had seen favourable references in the press and in some letters. To put the record straight, I was able to quote the exact references made by Mr. Woods both in his Stockholm speech and in his recent address to ECOSOC. I have now arranged for copies of both the Stockholm and ECOSOC speeches to be circulated to members

of the Working Party.

7. Mr. Ed Martin, the new Chairman of DAC, was sitting in at the Working Party meeting as an observer. In giving his impressions of the Working Party meeting, Mr. Martin said that on most issues the Working Party had to plan a "defensive position" for use at UNCTAD II. He would like to consider whether the DAC countries could not also find some positive initiatives and he proposed that the question of such positive initiatives should be discussed at next Thursday's meeting of the DAC full committee. He listed as an illustration of a positive initiative the question of a "Grand Assize".

cc: Mr. Demuth (2)
Mr. Miller
Mr. Karasz
Mr. Ziegler