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

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The World Bank

1818 H Street NW

Washington DC 20433

Telephone: 202-473-1000

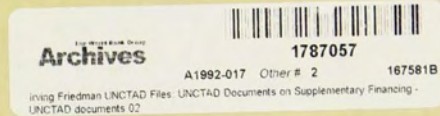
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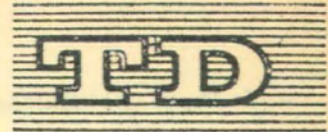
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Friedman UNCTAD Files - UNCTAD Documents on
Suppl. Finance

Nov. 1967 - May 1969

DECLASSIFIED
WBG Archives





Distr.
GENERAL

TD/B/C.3/AC.3/28/Add.3
5 May 1969

Original: ENGLISH

United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD
Committee on Invisibles and Financing
related to Trade
Inter-governmental Group on Supplementary Financing
Fifth session
New York, 23 June 1969

HYPOTHETICAL CASE STUDIES IN SUPPLEMENTARY FINANCING

A case study of Ghana, 1960-67

by

R.L. Marris and R.T.F. King*

* This study by Dr. R.L. Marris of King's College, Cambridge and Dr. R.T.F. King of Queen's College, Cambridge has been prepared at the request of the UNCTAD secretariat. The views expressed in the study do not necessarily reflect those of the UNCTAD secretariat.

EXPLANATORY NOTES

The following symbols have been used in the tables throughout this document:

Three dots (...) indicate that data or other information are not available or are not separately reported; a dash (-) indicates that the amount is nil or negligible; a slash (/) indicates a fiscal year, e.g. 1965/66. Use of a hyphen (-) between years, e.g. 1963-65, signifies the full period involved, including the beginning and end years.

Details and percentages in tables do not necessarily add to totals, because of rounding.

The following abbreviations have been used in the text and tables:

- CFF - Compensatory Financing Facility of the International Monetary Fund
- ₵ - New Cedis (Ghana's currency unit)
- OAU - Organization for African Unity
- SFM - Supplementary financial measures

INTRODUCTION

Background

1. This case study is aimed almost exclusively at estimating the consequences to Ghana on the one hand, and to a possible SFM scheme on the other, of the rather dramatic events in the world cocoa market which occurred between the years 1960 and 1967. No analysis has been made of possible shortfalls or overages arising from Ghana's exports of products other than cocoa, in order to isolate the effects of what appears to be a classic case of a probable disappointment of reasonable expectations due to an unexpectedly rapid increase in world production of a commodity whose price-elasticity of demand is less than unity (the consensus of estimates is around 0.4). Ghana is responsible for as much as 30 per cent of world production of cocoa, and in 1960 cocoa beans and products were responsible for over 60 per cent of the value of national exports.

2. Before 1960, that is over the period 1950-59, world production of cocoa appeared to have been rising along a trend line representing a growth-rate of a little under 2 per cent per annum. A number of studies have been made of the demand for cocoa (which is represented by figures for world grindings of beans, see Annex A) and these, considered as a whole, strongly suggest that the world average price-elasticity of demand is about 0.4, meaning that a 10 per cent fall in price would lead to a 4 per cent increase in consumption, other things being equal (when the principle is applied to large price changes, we say that the logarithm of an index number of demand, using a given base year, will equal -0.4 times the log of the corresponding index number of price, using the same base year, assuming that in the base year demand was, in fact, at the level expected by the underlying demand curve). In addition, they suggest an underlying growth rate of 3 per cent per annum implying that if prices were constant, demand would nevertheless grow at this rate due to rising world population, income and demand in the other countries. We found, however, that the actual trend of consumption during the period 1950-59 can only be explained satisfactorily, given the assumption of a 0.4 price elasticity, if the underlying growth rate is estimated at 3.5 per cent per annum.

3. It follows that any reasonable estimate of the trends of supply, demand and prices of cocoa made at or just after the turn of the decade, would probably have accepted the hypothesis that demand was growing at a faster rate than supply, to the extent of about 1.75 per cent a year. To bring about equilibrium (assuming for the

sake of argument that the whole adjustment must fall on consumption) prices would have to rise by $1.75/0.4$ per cent per annum namely 4.25 per cent per annum. With production rising at 1.75 per cent per annum this would have meant that the value of production, and hence, as a first approximation, world export earnings, would be rising at 6 per cent per annum. In fact, subject to some rather severe disturbances in the middle of the period, a trend line incorporating a 6 per cent growth rate does explain the historical development of the value of world grindings^{1/} quite well.

4. In 1959 world production corresponded closely to its trend line, world consumption fitted well with the demand equation, and the value of world grindings corresponded to the theoretical level suggested by the preceding argument. But in 1960 world production, instead of rising 2 per cent, rose by 20 per cent, and there was a further substantial increase the following year. Since that time the trend line of world production appears to have experienced a constant displacement equivalent to a permanent addition of almost one-third to the world supply of cocoa. Since the price-elasticity of demand is substantially less than one, such an event must imply that any prediction of earnings for the present decade, based on the apparent trends of the previous decade, would represent a very substantial over-estimate. This would therefore have been an obvious case for the creation of shortfalls from reasonable expectations of earnings in the type of supplementary financing scheme described in the World Bank staff report^{2/}. Of course, some of the increase in supply, which was apparently caused to a considerable extent by improvements in agricultural techniques, might have been anticipated, but it is clear that neither the scale nor the consequences of the occurrence were, or in all probability could reasonably be expected to have been, foreseen. It must be accepted, however, that in the presence of the information necessary for greater foresight, and in the knowledge of the relevant elasticities, the discovery that "reasonable" expectations were more gloomy would have suggested remedial measures different from those implied in the concept of supplementary financing.

5. In the presence of an SFM scheme operating from the late 1950's through the following decade, the actual development of shortfalls would have been much affected by the timing of the agreed planning periods. For planning periods beginning late enough for the new structure of the world cocoa economy to have been fully appreciated, it is unnecessary to make elaborate calculations to demonstrate that shortfalls would have been small. In the event of a planning period beginning in

1/ "The value of world grindings" is defined as the quantity of world grindings multiplied by the average unit value of world exports of cocoa beans and products, this being the fairest available representation of the relevant concept of earnings taking one year with another and avoiding distortions due to the sharper movement of quoted prices as compared to prices in actual trade. For further discussion see Annex A.

2/ IBRD, Supplementary Financial Measures, 1965 (TD/B/43)

1962, when knowledge of the increase in production in 1961 and 1962 might have been available, it would obviously have been difficult to agree on reasonable expectations without later evidence to indicate whether or not the increased output seemed to be permanent. For these reasons it seemed inevitable, for the purposes of this case study, to assume that even in the case of a planning period beginning as late as 1962, the agreed figures for reasonable expectations would have been based on data terminating in 1959. For planning periods beginning 1963 or after, however, it is reasonable to suppose that expectations would have been revised. For illustrative purposes results have been computed for three planning periods, namely, 1960-64, inclusive (Period A); 1962-66 inclusive (Period B); and 1963-67 inclusive (Period C). The estimates of shortfalls for Periods A and C are exclusively based on data of the period 1950-59 but the estimate for Period C attempts to take account of revised expectations in the manner described at the end of Annex A.

6. The logical starting point is a projection of reasonable expectation of the value of world production and consumption of cocoa, through the period, on the assumption that taking one year with another, the world trade price finds the level required to equilibrate supply and demand, all the adjustment assumedly being placed, in fact on demand (in other words, the elasticity of supply in the absence of information, is assumed to be zero; it can be shown that as regards earnings alternative reasonable assumptions would not greatly affect our results). As already indicated, these estimates in fact implied a growth rate (in the value of world consumption) of 6 per cent per annum from 1959 onwards, and it was assumed that this was the appropriate figure, also, for the predicted growth rate of world export earnings.

7. We then considered how reasonable expectations as to world earnings might have been translated into reasonable expectations for Ghana; we noticed there is a tendency for changes in world production to be **correlated**, in the same direction, with changes in Ghana's share, as would be expected from the fact that Ghana is both responsible for a large proportion of world production and has been experiencing the most rapid changes in productivity. In the period 1950-59, however, this trend was fairly modest, and we assumed that in consequence only a modest allowance would in fact have been accepted. One reason, of course, why it is reasonable to assume that Ghana's share would have been expected to rise only slowly, is that, for the reasons already explained, we are assuming that world production would have been expected to rise only slowly. In the event, of course, the unexpectedly large rise in world production was strongly associated with production developments in Ghana itself, and

was consequently also associated with a substantially large increase in Ghana's share. This additional "unexpected" development is taken into account, of course, in estimating the shortfall, which would otherwise have been considerably larger. It is an "unexpected" factor, working in a favourable direction necessarily arising from the logic of the circumstances.

8. The reasonable expectations of Ghana's earnings from cocoa thus calculated, were expressed in index number form, 1959 = 100. They were compared with a corresponding index number for Ghana's actual cocoa earnings, f.o.b., and the difference in the two numbers, each year, was applied to the value of earnings (in \$ million) in 1959 to obtain the estimated shortfall or overage for the year in question. The shortfall was then cumulated over the planning period.

9. It was then assumed that the total amount Ghana could have asked from the scheme, over the period, was the cumulative shortfall, less:

- (1) An estimate of the extent to which, during the years of shortfall, Ghana's imports could have been compressed without disruption to development.
- (2) An estimate of the amount by which reserves might have been reduced, as between 1 January at the beginning of a year of shortfall and 31 December of the same year.
- (3) An estimate of the maximum amount which could have been claimed from the IMF Compensatory Financing Facility, taking account of the theoretical yearly shortfalls, and of the limitations of drawings to a maximum proportion of IMF quota in any one year and of the restriction on maximum claims to two years in succession.

Methods

10. The estimate of shortfalls was derived from a survey of previous econometric studies of demand carried out under the supervision of Dr. R.L. Marris of King's College, Cambridge. This survey however is not necessarily required to support the present estimates because, as already indicated (see also Annex A) the assumed demand and supply equations do in fact well explain not only the data of 1950-59 but also the actual results for 1960-67. More precisely, we find that the equations which well explain consumption in 1950-59 also provide a good explanation of subsequent events, taking account of the unexpected increase in supply. In other words, statistically speaking, we need little explanation of the estimated shortfalls beyond a single, supposedly unexpected event, namely the jump in supply: the demand equations therefore appear to have been structurally stable through 1960-67, although estimated from data of 1950-59.

11. The estimates of import compressibility were based on a detailed investigation by Dr. R.T.F. King of Queen's College, Cambridge, who has collaborated with Dr. Marris in this study. Dr. King visited Ghana and discussed the problems with government officials and economists, and arrived at his estimates after applying the information thus obtained to a detailed study of Ghana import statistics. His firm results essentially relate to the years 1964-67; it was not thought feasible to try to carry the detailed method back too far in time, but it has been possible to use the results as a base for approximate estimates of a reasonable minimum level of imports for the earlier years. Dr. King's detailed analysis is provided in Annex B, and summarized later below.

12. The estimate of reserve usage was necessarily somewhat arbitrary, since the criteria for reasonable minimum levels of reserve for different types of economies have not yet been established. Furthermore, it is difficult to assess the hypothetical availability of reserves at any given year in the historical scenario, without making detailed, year-by-year assumptions concerning the actual course of all relevant previous events, including inter alia the availability of supplementary finance. Instead, as already indicated, we note the reserves at the beginning of the period and suggest a possible figure for the cumulative run down. This means, of course, that in the case of the assumption under Period B, the initial reserves are those outstanding at 1 January 1962, not 1 January 1960. Ghana, at the end

of 1959, had very substantial reserves representing more than one year's normal imports; by 1962 these had already been considerably reduced and by a greater amount than can be explained by the absence of supplementary finance to meet the estimated shortfalls in 1960 and 1961. But the circumstances of this reduction have been treated as irrelevant, and the historical figure at the beginning of Period B is automatically accepted as the working basis for this period.

13. We assume that for a primary producing country such as Ghana, heavily specialized in the production of a commodity whose low short-term elasticities of supply and demand necessarily create (in the absence of an International Cocoa Agreement) very sharp swings in world prices, the minimum level of reserves is at least the figure of three months' normal imports which is sometimes quoted as feasible for countries with more stable international trade structures. Readers who would prefer alternative assumptions about minimum reserve levels, etc. could adjust the subsequent conclusions accordingly. For further details see Annex C.

14. The possible finance from the IMF compensatory financing scheme was estimated by first computing the yearly shortfalls of Ghana's actual total exports against the yearly norm computed from the IMF formula (which is a weighted average of the current and recent results). We then took account of the maximum permissible drawings and estimated actual potential drawings accordingly. No allowance has been made for the problem of re-payment, e.g. on the estimated hypothetical reserves. Details are also given in Annex C.

II. COMPRESSIBILITY OF IMPORTS

15. Before presenting the conclusions, it is desirable to summarize the detailed findings of Dr. King presented in Annex B.

16. He found that after 1962 imports of finished consumer goods declined substantially as a proportion of Ghana's total imports and that there was a marked rise in the share of raw materials and intermediate goods and especially in that of intermediate goods for mining and manufacturing. The volume of consumer goods imports, in fact, declined not only relatively but absolutely. More generally, although the real GNP of Ghana was rising briskly, and increased by about 20 per cent between the two years 1960 and 1961, there was no underlying upward trend in the volume of total imports, because of this import substitution. The extent of the substitution can be seen in two ways. First, the national accounts show that expenditure on imported consumer

goods at current prices has declined very markedly indeed as a proportion of total consumption expenditure in current prices. Second, there is a smaller but still considerable decline in the corresponding proportion at constant prices (domestic prices having risen faster than import prices).

17. It was clear that the absolute and relative decline in consumer imports was the result of the development strategy rather than of balance-of-payments constraints. The figures do suggest, however, that in 1965, total imports were markedly out of step with this underlying tendency, and in this year there seems to have been at least a prima facie case for some compressibility. There is however the difficulty that part of the large quantity of imports which came into Ghana in 1965 in connexion with the OAU meetings were almost certainly not consumed until later years, and this may partly explain the relatively low imports of, e.g. 1967, and needs to be taken into account in the over-all assessment.

18. Dr. King asks how much imports could have been compressed in 1965 without indiscriminate slashing leading to direct or indirect (e.g. through inflation) disruption of development. He first assumes that food imports (other than drink and tobacco) could not have been cut, in order to avoid inflationary rises in food prices. The volume of food imports in 1965, was, as a matter of fact, substantially lower than at the beginning of the period. Non-food consumer goods imports in 1965 were, however, a significantly higher proportion of non-food consumption expenditure than in 1964, in which latter year there was no strong reason to suppose that the proportion was abnormally low. He therefore suggests that perhaps the Agency might have insisted that 1965 non-food imports should be reduced to the same proportion of non-food consumption expenditure in 1965 as the corresponding figure for 1964. He assumes that this result is in fact achieved without an increase in expenditure on home-produced goods, and calculates accordingly. The result is a compression equivalent to a saving of \$37 million in consumer goods imports. This figure is then used as a starting point for a detailed examination of the commodity break down of consumer goods imports, noting items which are either of an intrinsically rather inessential character or which have increased unusually rapidly, and is found to be consistent with a reasonable pattern of actual reductions of individual items. (Much of the

information for this part of the exercise was, of course, based on the work done in Ghana.) Finally, he notes that there had also been a rather large increase in imports of building materials connected with a public works programme which might not have been accepted as fully essential to development, and suggests that these imports could have been reduced by \$13 million (for further details see Annex B). Consequently, it appears that taking 1965 in isolation there could have been room for a total compression of imports amounting to about \$50 million.

19. Dr. King points out, however, that there is no sign of compressible imports in 1966 and 1967. Both were years when imports were in fact severely restricted and consumer goods imports were well below 1965 levels. In reaching this conclusion he takes account of the fact that not all the restrictions were effective; for example imports of private cars continued in 1966 at about the previous rate despite the fact that all applications for foreign exchange for this purpose were being refused. Early in 1967 the IBRD and the Ghanaian Government carried out an exercise to determine the minimum imports to maintain the development programme. They envisaged maintenance of food and medical imports but severe cuts in other consumer goods imports. Actual imports in 1967, however, were lower than the minimum thus estimated. Imports of investment goods as well as investment itself fell substantially, and it seems reasonable to suggest that development was potentially disrupted. For this reason, we have been forced to assume "no compressibility" in 1966 and 1967.

20. In 1965 Ghana's actual imports were \$460 million, and we take a figure of \$400 million as the reasonable minimum for the centre of the period 1963-65, and since this estimate is based on Dr. King's detailed investigation, it is used as a base for less detailed estimates for earlier and later years, taking account of his findings relating to 1966 and 1967.

21. The figures for the reasonable minimum in each year were then compared with actual imports, and the latter were found in excess of the former in the years 1960, 1961, 1963 as well as, of course, 1965. In 1962 the two figures were the same and in 1964, 1966 and 1967, there were significant negative differences indicating that there was no scope for further compressibility in these three years. For reasons given in Annex B, the same assumption was made for 1963, despite the fact that actual imports in that year exceeded the reasonable minimum level. For details and results, see Annex B.

III. ESTIMATED CLAIMS FOR SUPPLEMENTARY FINANCE

22. Details of the calculations of export shortfalls are given in Annex A.

23. The total effect of the previous assumptions and calculations can be gathered together to form rough estimates of the possible demands which Ghana might have made, after the adjustments (but before of course taking account of any other adjustments, such as shortage of funds in the Agency) totalled over the full length of each period. As there were no "negative" shortfalls, the treatment of overages does not come into question.^{1/}

<u>Period A (1960-64 inclusive)</u>	<u>\$ million</u>
Cumulative shortfall	200
<u>less</u>	
Import compression	-
Reserve use	144
IMF CFF	34
Demand on SFM would therefore have been	<u>\$ 22 million over five years</u>
<u>Period B (1962-66)</u>	
Cumulative shortfall	390
Import compression	50
Reserve use	100
IMF CFF	42
Demand on SFM would therefore have been	<u>\$ 198 million over five years</u>
<u>Period C (1963-67)</u>	
Cumulative shortfall	70
Import compression	40
Reserve use	-
IMF CFF	8
Demand on SFM would therefore have been	<u>\$ 22 million over five years</u>

^{1/} For details see Table 1.

TABLE 1
Hypothetical estimates of supplementary financial assistance
(million US \$)

	<u>Period A (1960-64)</u>				
	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>
1. Gross export shortfall	20	24	40	54	62
2. Adjustment for compressible imports	-	-	-	-	-
3. Hypothetical use of reserves	20	24	26	34	40
4. Hypothetical use of IMF compensatory financing facility	-	-	14	20	-
5. Amount of supplementary finance needed ^{a/}	-	-	-	-	22
6. Supplementary finance as per cent of gross export shortfall	-	-	-	-	35
	<u>Period B (1962-1966)</u>				
	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
1. Gross export shortfall	40	54	62	82	152
2. Adjustment for compressible imports	-	-	-	50	-
3. Hypothetical use of reserves	26	34	40	-	-
4. Hypothetical use of IMF compensatory financing facility	14	20	-	-	8
5. Amount of supplementary finance needed ^{a/}	-	-	22	32	144
6. Supplementary finance as per cent of gross export shortfall	-	-	35	40	95
	<u>Period C (1963-67)</u>				
	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
1. Gross export shortfall	-	-	40	30	-
2. Adjustment for compressible imports	-	-	40 ^{b/}	-	-
3. Hypothetical use of reserves	-	-	-	-	-
4. Hypothetical use of IMF compensatory financing facility	20	-	-	8	-
5. Amount of supplementary finance needed	-	-	-	22	-
6. Supplementary finance as per cent of gross export shortfall <u>a/</u>	-	-	-	73	-

^{a/} Arrived at by deducting from the gross export shortfall: compressible imports, hypothetical use of reserves and hypothetical use of IMF compensatory financing facility.

^{b/} Total compressible imports amounted to \$50 million in 1965. However, since the gross export shortfall for that year in period C was only \$40 million, this latter figure was used as a measure of adjustment for compressible imports.

ANNEX A

Methods of estimating shortfalls

Sources and nature of data

The data relating to world cocoa production, consumption and trade were derived from Gill and Duffus, Cocoa Market Reports, FAO, Cocoa Statistics, Commodity Review and Commodity Reports, and Ghana Government, Economic Surveys. The last named were a particularly helpful source of comprehensive and continuous information over the relevant periods.

The following aggregates were employed:

World production (W)

The quantity of cocoa beans produced in the world.

World grindings or "Consumption" (G)

The quantity of beans ground into cocoa powder.

World unit value or "Price" (P)

The f.o.b. value of world exports of beans divided by the corresponding quantity.

Value of world grindings (V)

World grindings multiplied by world unit value.

Crop year

The crop year 1969 is the period from 1 October 1968 to 30 September 1969.

World unit value was taken as the measure of price, in preference to market price quotations, because the significance of individual quotations cannot be assessed without knowing the corresponding quantities of transactions and the balance between spot and forward transactions. World unit value, by contrast, represents the actual average value of beans exported to consuming countries, and is not, in the present case, seriously affected by changes in the quality composition of the aggregate concerned. An annual index of world unit value is highly correlated with an index of price quotations, but is subject to a distributed lag and is generally less volatile.

It might have been expected that, having decided to employ unit value as a measure of price, the quantity of world exports would have been taken as the corresponding measure of volume. Grindings were preferred, however, because nearer

to a concept of consumption or quantity demanded. It follows that the value of "world grindings" is not directly observable. Dimensional problems are avoided by undertaking all analysis on data and index-number form only. The value of world grindings, thus defined, deviates from the value of world exports in individual years, but the two series are well correlated and do not deviate in the long run. The cause of the deviations is, of course, changes in stocks of beans held in consumer countries and, to a lesser extent, disproportionate changes in consumption in exporting countries.

The need for an independent measure of quantity demanded arises from the fact that actual cocoa earnings in any given year are affected not only by the fundamental forces of supply and demand but also by market expectations and adjustment lags causing changes in stocks. The concept of "reasonable expectation" of future earnings must evidently be based on an assumption of equilibrium, both short-run and long-run; quantity demanded must be assumed equal to quantity supplied and stocks not to be tending to change (unless, of course a commodity agreement is expected to be in operation). No other assumption would provide a feasible basis for planning projections because any assumption of disequilibrium must involve the projection of a complex process in which an initial disequilibrium creates certain expectations, which in turn create a chain of events in stocks, prices and consumption, etc. leading again to changed expectations, and so on. In short, the price assumed in the projections can only be the price which would be expected to clear the market, given the estimated demand and supply equations. The latter, however, must be estimated from past data in which actual disequilibrium states are also partly reflected. In order to avoid biased estimates it is therefore essential to be able to distinguish historical statistics of "demand" (grindings) from those of "supply" (production).

Basic series

ANNEX TABLE 1

Index numbers of world production,
consumption and values of cocoa,
1950-67 (1962 = 100)

	World production (1)	World grindings (2)	World unit value (3)	Value of world grindings (4)
1950	67	69	100	69
1951	71	69	122	84
1952	57	59	145	86
1953	70	65	145	94
1954	67	65	222	144
1955	71	65	180	117
1956	75	74	127	94
1957	80	81	125	102
1958	68	75	183	137
1959	80	78	161	126
1960	92	75	132	99
1961	104	92	105	96
1962	100	100	100	100
1963	103	103	107	110
1964	107	107	111	109
1965	133	120	85	102
1966	107	125	91	113
1967	119	125	114	142

Note: The first two columns relate to crop-years, the third column to calendar years and the final column represents the product of the second and third.

Basic methods

As already indicated, the basic method of estimating reasonable expectations of Ghana's cocoa earnings, 1960-67, from data relating to 1950-59, involved the following steps:

- (i) On the assumption that the elasticity of supply with respect of price is zero, estimate supply as a function of time only, by fitting a least-squares regression line to world production, 1950-59 (ten years) of the form,

$$\text{Log } W_t = a + bT \quad (1)$$

- where T signifies time in years from a convenient base.

- (ii) By regression analysis estimate the following equation for grindings, 1950-59,

$$\text{Log } G_t = a' - e. \quad \text{Log } P_t + cT \quad (2)$$

subject to the constraint that $e = 0.4$ (that is to say we find those values of a and c which, with the given value of e, minimize the mean square deviation of actual from predicted values of G_t).

- (iii) Equations (1) and (2) can be combined to find the price at which G_t will equal W_t for any value of T. Unless b equals c this price will display a trend over time represented by $(c-b)/e$ and the value of grindings (i.e. the product G_t and P_t) will display an underlying trend represented by b + the trend of price. More precisely, the underlying trend of V_t is a constant exponential growth rate of v per cent per annum defined as

$$v = (100) \left(b + \frac{c-b}{e} \right) \quad (3)$$

- when using natural logarithms.

- (iv) Estimate the expected trend of Ghana's share in world cocoa production by inspection of data 1950-59 to find evidence of association between first differences in Ghana's share and first differences in world production.

- (v) Estimate reasonable expectations of Ghana's cocoa export earnings 1960-67, on the assumption that they grow from a suitable base (see below) at the rate v, adjusted for the

- expected change in Ghana's share, derived from step (iv), which would be associated with the growth rate of production, b.
- (vi) Compare actual Ghana cocoa earnings, 1960-67, with reasonable expectations, year by year, to obtain the estimated shortfalls.

The analysis below follows these steps and also attempts to estimate the extent to which the events of 1960-67, and the estimated shortfalls, can be explained by the hypothesis of a permanent shift in the supply curve occurring after 1959.

Application of methods

(i) World production trend

The least-squares line of best fit on the data of 1950 through 1959 (not including 1960), using logs to the base 10 was

$$\text{Log } W_t = 1.89 + 0.0075T \quad (4)$$

- where T is measured from 1960 and where the base of the index of world production is also changed to 1960.

The coefficient 0.0075 using logs to base 10, implies a growth rate of 1.75 per cent per annum.

The same methods and definitions applied to the data 1960-68 yield an intercept of 1.99 (of 1.89) and a coefficient of 0.10 implying a growth rate of 2.25 per cent per annum. Although the difference between the two trend estimates might seem significant economically, it is not, with this number of observations, significant statistically. Consequently we have no cause for rejecting the hypothesis that the underlying rate of growth had not changed. The change in the intercept, by contrast, is highly significant. If the trend coefficient is held to 0.0075, the line of best fit on the data 1960-68 has an intercept of 2.00, and the difference between this figure and the figure 1.89 represents our estimate of the proportionate permanent increase in world supply after 1960. Anti-log 0.11, to the base 10, gives the number 1.28, indicating a permanent shift of 28 per cent of all quantities predicted by equation (4).

(ii) World demand

The assumed world price-elasticity (i.e. the constrained value of e) was taken as 0.4, derived from a variety of previous studies and especially those of the FAO. The figure represents a weighted average of the following: United

Kingdom and United States 0.35, other Western Europe, 0.47; other developed market economies, 0.45; Japan, 1.0; developing market economies, 0.6; centrally planned economies, 0.0 (where it was assumed that demand was governed by trade planning policy, independent of price).

Using logs to base 10, the coefficient c , estimated by the methods described above, was 0.015, representing a trend growth rate of 3.5 per cent per annum. If income elasticities established by previous studies for the several groups of economies referred to above are applied to the corresponding growth rate of income per capita for the period, the result, combined with the effect of population growth, is an estimated trend of the same magnitude, but 0.25 to 0.5 per cent per annum lower. This comparison provides helpful confirmation of the validity of our method; it was necessary to employ the trend estimated from the actual data, however, in order to preserve statistical consistency. This does mean that we would have been assuming, in effect, that the trend of world income and population in the 1960's was to be the same as the historical trend of the 1950's. It will be seen from equation (3) that a one-half percentage point overestimate of the trend represented by the coefficient c , for example, must, given that e is assumed 0.4, produce a three-quarters of a percentage point overestimate of the trend earnings, v .

A demand equation for predicting the level of world grindings in the period 1950-67, from the observed prices in those years, incorporating a trend of 3.5 per cent per annum and a price elasticity of 0.4 gives a good fit, to the actual grindings, with $R^2 = 0.95$ and only four instances through the eighteen years in which the observed figure deviates from the predicted figure by more than 5 per cent. Furthermore, examination of these residuals provides no evidence whatsoever of any change in the underlying demand function as between 1950-59 and 1960-67. This discovery not only helps to provide confidence in the methods of analysis, but also reinforces the conclusion that the main cause of the cocoa shortfall was to be found on the side of supply. It should also be remembered that, because the demand elasticity was taken from other sources, the equation fitted was not necessarily the best possible one for explaining the actual data, and that, in particular, the trend-value was obtained from the 1950-59 data only. Nevertheless, the equation provides as good an explanation of the data 1960-67, as for the previous period. For information, the specific form of the equation was as follows:

$$\text{Log}_{10} (G_t) = 2.8 - .4 \text{Log}_{10} (P_t) + .015 T \quad (5)$$

- where T was measured in years from 1962 and G_t and P_t were index numbers on base 1962.

(iii) Trend of prices and earnings

The foregoing results provide us with estimates of the coefficients b, c and e, namely 0.0075, 0.015 and 0.4, respectively (using logs to the base 10, so that log of v is given by $(0.0075 + 0.015 - 0.0075)$, yielding a figure of 0.026, the anti-log of which is 1.06, so we estimate v, the underlying trend of earnings, at 6 per cent per annum. The corresponding trend of price is approximately 4.25 per cent per annum.

With a price elasticity of e, for the market to absorb a permanent increase in the log of supply of, say, Q, the log of price must fall by Q/e . Consequently the log of earnings will change by $(Q-Q/e)$; if e is less than unity this change is necessarily negative. In the present case, we have already estimated Q as 0.11, consequently earnings (or more precisely the predicted value of the grindings) decreases by 0.16. By taking the anti-log we find this means a decrease of 31 per cent.

The preceding analysis provides a dramatic illustration of the consequences for earnings of a substantial increase in supply, for a commodity with price-elasticity less than unity in the absence of an international commodity agreement. Had the change not occurred, the cocoa producers could have expected an upward trend in earnings which would probably have been adequate to support reasonable target rates of domestic economic growth, and would have experienced an upward trend in the cocoa terms of trade of perhaps 1.0 to 1.5 per cent per annum (representing the excess of the trend growth rate over the trend of supply prices of imported manufactures). In the event, the actual terms of trade deteriorated by 45 per cent, and the factorial terms of trade (assuming the whole increase in supply to be due to increased productivity) by 20 per cent. The increase in production thus caused an absolute reduction of cocoa producers' real national income.

(iv) Estimate of Ghana's share

Inspection of the 1950-59 data suggested that a 10 per cent increase in world production was associated with approximately a one percentage point increase in Ghana's share in world production. Consequently, with world production supposedly

rising at roughly 2 per cent per annum (1.75 per cent), it was assumed that it would have been agreed that Ghana's share, which was 28 per cent in 1959, would be 28.2 per cent in 1960, 28.4 per cent in 1961, and so on.

(v) Calculation of Ghana's shortfalls

Ghana's reasonably expected export earnings were expected to grow at the same rate as the trend of world grindings, after 1959, adjusted for changes in Ghana's expected share, on the assumption that its share in world trade changed in the same way as its share in world production. The resulting calculation of shortfalls is shown in Annex Table 2.

ANNEX TABLE 2

Predicted value of world grindings, of Ghana's share and of Ghana's cocoa earnings; Ghana's actual earnings and estimated annual shortfalls, 1960-67

(Based on statistical estimates from data 1950-59 only)

	Predicted value of world grindings	Predicted share of world production	Predicted value of earnings	Actual value of earnings	SHORTFALLS	
					Percentage points	\$ million
1959	100	28.0	100	100	-	-
1960	106	28.2	107	97	10	20
1961	112	28.4	113	101	12	24
1962	119	28.6	121	101	20	40
1963	126	28.8	129	102	27	54
1964	134	29.0	139	103	36	62
1965	142	29.2	147	106	41	82
1966	150	29.4	157	81	76	152
1967	159	29.6	168	87	81	162

Note: Ghana's exports of cocoa in 1959, actually \$199 million, were assumed to have been \$200 million.

The cumulative shortfalls for the various periods are as follows:

Period A (1960-64) \$200 million

Period B (1962-66) \$390 million

In the event, world trade in cocoa performed on average a little better, in the period 1960-67, than the value of world grindings, presumably as a result of increased stockholding of beans in importing countries. Ghana's share in world trade increased considerably faster than the predicted increase in its share in world production (reflecting the fact that Ghana was a major originator of the increase in world supply). In the absence of these developments Ghana's shortfalls would have been perhaps, in Period C, \$150 to \$200 million greater.

The "unexpected" increase in Ghana's share would have implied unexpected decreases in the shares of other cocoa producing countries which might have joined the scheme. At a rough guess, had the Agency happened to come into operation in the late 1950's, and to have made agreements with a country representing a large proportion of world cocoa output at the turn of the decade (before the increase in world supply had been appreciated) aggregate cocoa shortfalls, before adjustment for plan revisions, use of reserves, etc. might have amounted to \$200 million during the first five years of the Agency's operation.

Shortfalls on revised expectations

For the purposes of Period C, we need to estimate the shortfalls on the assumption that the changed structure of the situation was to some extent taken into account, and that the cocoa-producing countries had either been compelled to reduce their planned rate of development or had succeeded in obtaining a larger amount of development assistance from other sources. It is impossible to suggest a specific basis for the kind of partial revision of expectations that might in fact have occurred. Instead we propose to make use of hindsight, and assume that the expected trend line, after revision, was the one calculated on the basis that the full estimated increase in world supply (28 per cent) had in fact come about. It will be seen that there were significant shortfalls below this line in both 1965 and 1966.

In view of the actual events relating to Ghana's share in world production in the early 1960's, it is even more difficult to estimate what would have been assumed about this. Instead we have simply applied the estimated percentage world shortfalls to Ghana's actual earnings, to obtain total shortfall of \$70 million for Ghana cocoa for the two years in question.

ANNEX B

Estimates of the compressibility of Ghana's imports

The object of these estimates is to ascertain the extent to which, during the period when Ghana was estimated to have been experiencing export shortfalls, imports could have been reduced (e.g. by quantitative restrictions) below the historically observed levels, without disrupting development.

Evidence of import substitution

Annex table 3 presents Ghana's imports by end-use, 1961-67. It can be seen that after 1962 imports of finished consumer goods declined markedly as a proportion of total imports and that, by contrast, there was a marked rise in the share of raw materials and intermediate goods, particularly for mining and manufacturing. Annex table 4 shows the total imports of goods and (non-factor) services, 1960-67, at current and at constant prices. A trend line fitted to the constant-price series (by the method of comparing the average of the first four observations with that of the last four) implies a small rate of decline of about three-quarters of one per cent per annum, subject to considerable year-to-year fluctuations, during a period when GNP at constant prices was rising at 2.5 per cent per annum. (Republic of Ghana, Economic Survey 1967, Table 2), implying an apparent over-all rate of import substitution of 3.25 per cent per annum. Such a rate if sustained over a long period, would reduce the proportion of imports in national income by one percentage point a year, very much faster, that is, than is typically found in developing countries.^{1/} In fact, as will be seen below, imports at the end of the period were almost certainly substantially less than the level required to support development, so that the underlying rate of substitution was almost certainly lower than the apparent rate.

Since consumer goods imports formed a declining share of an apparently declining total, they were evidently declining absolutely, as well as relatively, in volume terms. Our investigations in Ghana showed that the substitution process consisted largely of replacing finished consumer goods imports by imports of components and carrying out the final stages of manufacture in new plant locally.

^{1/} See Trade Prospects and Capital Needs of Developing Countries, United Nations publication, Sales No.: E.68.II.D.13 (TD/34/Rev.1), chapters 3 and 5.

ANNEX TABLE 3
Imports by end-use 1963-67
(million of N\$)

	1961		1962		1963		1964		1965		1966		1967	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
<u>Non-durable consumer goods</u>														
Food, drink and tobacco	43.5	15.2	35.1	15.0	28.1	10.8	29.2	12.0	27.4	8.6	31.0	12.4	32.1	12.3
Textiles and clothing	47.4	16.6	38.7	16.6	34.4	13.2	27.0	11.1	43.8	13.7	22.8	9.1	20.8	8.0
Others	26.7	9.3	23.3	10.0	23.8	9.1	15.5	6.4	20.7	6.4	14.3	5.7	18.5	7.1
Sub-total	117.6	41.2	97.1	41.6	86.3	33.1	71.7	29.5	92.0	28.7	68.0	27.2	71.5	27.4
<u>Durable consumer goods</u>														
Private vehicles and accessories	8.3	2.9	5.1	2.2	6.3	2.4	3.2	1.3	5.5	1.7	5.2	2.1	8.6	3.3
Others	15.2	5.3	9.6	4.1	10.1	3.7	6.8	2.8	12.4	3.8	4.4	1.7	5.6	2.2
Sub-total	23.5	8.2	14.7	6.3	16.4	6.3	9.9	4.1	17.9	5.5	9.6	3.8	14.2	5.5
<u>Raw and semi-finished materials</u>														
For food, drink and tobacco	17.0	6.0	13.2	5.7	12.9	5.0	15.4	6.3	13.3	4.2	12.9	5.1	17.9	6.9
For agriculture	6.2	2.2	6.0	2.6	6.1	2.3	2.7	1.1	5.2	1.6	5.8	2.3	10.8	4.1
For mining and manufacturing	18.8	6.6	17.2	7.4	23.6	9.1	23.1	9.5	32.9	10.3	27.5	11.0	41.9	16.1
For construction	37.0	13.0	29.5	12.6	36.4	14.0	41.6	17.1	49.3	15.4	39.9	15.9	29.5	11.3
Sub-total	79.0	27.7	65.9	28.3	79.1	30.4	82.8	34.0	100.7	31.5	86.0	34.3	100.1	38.3
Capital equipment	53.5	18.7	42.7	18.2	64.5	24.7	64.9	26.7	96.6	30.2	76.6	30.6	59.9	22.9
Fuel and lubricants	11.9	4.2	13.0	5.6	14.4	5.5	14.0	5.7	12.9	4.0	10.4	4.1	15.4	5.9
Total imports	285.7	100.0	233.5	100.0	260.7	100.0	243.2	100.0	320.1	100.0	250.6	100.0	261.0	100.0

Source: Ghana Economic Surveys.

ANNEX TABLE 4

Implicit price index for imports of goods and
non-factor services, 1960-67

	<u>Imports</u> Current prices (million N¢)	<u>Imports</u> 1960 prices (million N¢)	<u>Implicit price</u> <u>index</u> (1960 = 100)
1960	296	296	100
1961	326	322	101
1962	270	282	96
1963	290	312	93
1964	283	272	104
1965	376	350	107
1966	285	277	103
1967	344	233	148

Source: Ghana Economic Surveys

The foregoing impressions are supported by the data of Annex Table 5, showing the percentage of total consumption expenditure supplied by imports; in current prices, expenditure on imported consumer goods fell very markedly indeed as a proportion of total consumption expenditure. Prices of domestic goods, however, rose markedly relatively to prices of imported goods and the second part of Annex Table 5 attempts to give an approximate indication of the results of the corresponding calculations at constant absolute and relative prices. (There is no readily available price index for imported consumer goods, so it has been necessary to use the general price index for all imported goods.) It will be seen that although the change is smaller, the relative share of imports in the real volume of consumption also fell very substantially. Ignoring the figures for 1967 (which are affected by devaluation), one can characterize the developments by saying that inside about five years the share of imports in consumption in current prices was reduced by two-thirds, in constant prices halved.

Our investigations showed that the decline in consumer goods imports represented an underlying trend resulting from the pattern of economic development followed by Ghana. Consequently, it would not be legitimate to proceed by noting the lowest level of fluctuation around this trend and assuming that any higher level of imports could have been compressed to this level without disruption. The figures, supported by our local investigations, suggest, however, that in 1965 imports were at a high level out of step with the trend and thus present a prima facie case for some compressibility, while in others, such as 1966 and 1967, the opposite appears to be true.

It is important to appreciate that significant stocks of imported consumer goods are held in Ghana's distribution system, and that these are known to fluctuate by amounts representing a significant proportion of the corresponding flow of current imports and consumption. It is known, for example, that some specific types of consumer goods, imported in association with the meetings of the OAU in 1965, were not consumed until later years, thus reducing actual import needs in 1966 and 1967 and creating the possibility that they were below the normal minimum needed to prevent disruption.

Compressibility of imports in 1965

We begin with the arbitrary assumption that imports of food products (not including beverages and tobacco) could not have been reduced without causing various forms of disruption, including inflation. This is not to say, of course, that it might well

ANNEX TABLE 5

Percentage of consumption expenditure supplied by imports,
1961-67

(million N¢)

(1) At current market prices

	<u>Private</u> <u>consumption</u>	<u>Government</u> <u>consumption</u>	<u>Total</u> <u>consumption</u>	<u>Import of</u> <u>consumer</u> <u>goods</u>	<u>% of total consumption</u> <u>supplied by imports</u>
1961	804	110	914	141.1	15.4
1962	830	122	952	111.8	11.8
1963	916	138	1054	102.7	9.8
1964	987	160	1147	81.6	7.1
1965	1255	205	1460	109.9	7.5
1966	1337	261	1598	77.6	4.9
1967	1286	308	1594	85.7	5.4

(2) At 1960 prices

	<u>Private</u> <u>consumption</u>	<u>Government</u> <u>consumption</u>	<u>Total</u> <u>consumption</u>	<u>Import^{a/} of</u> <u>consumer</u> <u>goods</u>	<u>% of total consumption</u> <u>supplied by imports</u>
1961	752	104	856	139	16.2
1962	710	114	824	116	14.1
1963	744	126	870	105	12.0
1964	717	134	851	78	9.2
1965	722	165	887	102	11.5
1966	689	172	861	75	8.7
1967	724	193	917	58	6.3

Source: Ghana Economic Surveys

a/ Deflated by implicit index for all imports (Annex Table 4).

be agreed that in the long run Ghana could, and should, reduce its degree of dependence on imported foodstuffs, but it does not seem reasonable to hypothesize that this would have been included in a development plan formulated at a time when reasonable export expectations showed an upward trend perhaps as high as 5 per cent per annum (6 per cent for cocoa). Consequently it would seem that the actual level of food imports during the period would have had to have been accepted as a fact, particularly as in volume terms, they showed a rather sharp declining trend (see Annex Table 6).

Annex Table 6 calculates the behaviour of non-food consumption imports as a percentage of total consumption, both at current and at constant prices. There is a sharp rise in 1965 preceded by a sharp drop in 1964 and followed by even sharper drops in 1966 and 1967 (by which time of course, the balance of payments crisis had led to severe restrictions).

Taking all these facts into account it seems reasonable to expect that in the event of a claim for supplementary finance relating to 1965, non-food consumer goods imports would have been expected to be compressed to a level representing no higher a share of total non-food consumption than in 1964, at 1960 prices; in other words, that this percentage should be held down to about 12.5 per cent.

In order to avoid domestic inflationary pressures it would have been necessary for the Ghanaian monetary authorities to have taken steps to reduce total consumption demand by at least the amount of the reduction in imports, in which case the target amount of compression (in non-food consumer imports) in 1960 N¢ millions, signified by m , is governed by the formula,

$$m = \frac{M - p.C}{1 - p}$$

where M signifies actual imports (N¢ m.) in 1965 at 1960 prices

C signifies actual total non-food consumption, at 1960 prices

p is the target ratio of imports to consumption (non-food).

Annex Table 6 shows M to have been 85, C , 509, and we have already established p at 0.125 (see also Annex Table 6, last line 1964 column). On these figures the formula puts m at about N¢ 24.4 million or \$34 million. It happens that the implicit price index for non-food consumer imports, 1960 = 100, was itself equal to 100, so these figures also represent targets in current prices.

ANNEX TABLE 6

Imports as a percentage of non-food consumption expenditure,
1961-67

(million N¢)

	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
<u>Current prices</u>							
(a) Total consumption expenditure	914	952	1054	1147	1460	1598	1594
(b) Food consumption	388	429	498	579	761	888	780
(c) Non-food consumption expend.	526	523	556	568	699	710	814
(d) Total consumption imports	141	112	103	82	110	78	86
(e) Food imports	36	32	26	28	25	29	29
(f) Non-food consumption imports	105	80	77	54	85	49	57
(g) (f) as % (c)	20.0	15.3	13.8	9.5	12.1	6.3	7.0
<u>1960 prices</u>							
(a) Total consumption expenditure	856	824	870	851	887	861	917
(b) Food consumption expenditure	348	357	369	387	378	387	394
(c) Non-food consumption expend.	508	467	501	464	509	474	523
(d) Total consumption imports	139	116	105	78	102	75	58
(e) Food imports	33	28	21	20	17	19	19
(f) Non-food consumption imports	106	88	84	58	85	56	39
(g) (f) as % (c)	19.6	18.8	16.7	12.5	16.4	11.8	7.4

Note: The price indices used were supplied directly by the Ghana Government Central Bureau of Statistics and differ slightly from published indices.

The foregoing target can be seen as a first approximation to the aims of a detailed import-cuts exercise which would be undertaken by the member government and the Agency. We can test the reasonableness of the figure by examining the commodity composition of non-food consumer imports in 1965 and suggesting a pattern of cuts. The appropriate details are given in Annex Tables 7 and 8. The first table suggests that textiles, footwear and other non-durables could almost certainly have been cut in 1965 without disruption. The second shows cases of other products whose imports increased notably between 1964 and 1965 (in many of these cases the levels were also considerably higher than in earlier years as well). In most of these items, it is suggested, cuts could have been made without disruption.

A possible pattern of cuts in Annex Table 7 might have been: drink and tobacco, N¢ 1.0 million; textiles, N¢ 12 million; footwear, N¢ 2 million; private road vehicles, N¢ 2 million; making a total of N¢ 17 million, leaving N¢ 7.4 million to be found from other durable and non-durable goods. Annex Table 8 (which is expressed in millions of US dollars, having been derived from United Nations trade statistics) suggests the following possible cuts for the selected items: perfume and cosmetics, \$0.2 million; glassware for household use, \$0.3 million; pottery, \$0.7 million; cutlery, \$0.6 million; household equipment of base metals, \$2.5 million; television receivers, \$0.4 million; radio receivers, \$0.5 million; domestic electrical equipment, \$1.2 million; travel goods, etc. \$0.2 million; developed cinema film, \$0.2 million; watches and clocks, \$0.3 million; making a total of \$7.3 million, or N¢ 5.0 million, leaving N¢ 2.4 million to be found from other items. It should be emphasized that although these cuts are consistent with what appears to be a reasonable over-all target, and do not appear to impinge directly on development, they would in the long run necessarily have caused a severe disruption of urban consumer life and would certainly imply considerable "austerity". The pattern suggested results from discussion with Ghana government officials about the problems of cutting imports and the general economic circumstances of the time. It was not thought desirable, however, to pose to officials the question of whether any particular item of the proposed cuts would or would not have been feasible during a year which at the time of the investigation was now four years past.

In Ghana, in 1964 and 1965, there was a substantial rise in the imports of various building materials, at least some of which resulted from public works associated with the OAU meetings. Annex Table 9 shows a rise in imports of construction materials which apparently reflected less an increase in building than an increase in the import content of the programme. Employment in the industry actually fell by 5 per cent between 1964 and 1965, and the rise in the value of output was nowhere near commensurate

ANNEX TABLE 7

Imports of non-food consumer goods,
1963-67

(in million Nø at current prices)

	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
Drink	0.9	0.3	0.8	0.4	0.4
Tobacco	1.5	1.1	1.5	1.5	2.6
Textiles and clothing	34.4	27.0	39.8	21.1	20.0
Footwear	3.3	2.0	4.0	1.7	0.8
Other non-durables	20.5	13.5	20.7	14.3	18.5
Private road vehicles	6.3	5.5	5.2	8.6	
Other durables	10.1	6.8	12.4	4.4	5.6
	—	—	—	—	—
Total	77.0	53.9	84.7	48.6	56.5

ANNEX TABLE 8

Selected consumer goods imports,
1962-65

(thousand US \$)

<u>SITC</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
553.0	677	630	240	472
665.2	221	188	160	513
666	316	261	336	927
696	467	814	325	905
697	2 885	2 165	1 761	3 939
724.1	9	6	126	469
724.2	2 382	924	865	1 071
725	1 106	1 540	1 125	2 110
831	420	699	299	492
863	64	268	408	510
864	102	128	120	412

Source: United Nations

ANNEX TABLE 9

Imports of construction materials,
1962-67

(million NØ)

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
Cement	5.9	5.8	8.3	6.6	6.9	5.0
Steel and structural manufactures	6.0	6.6	8.8	12.4	8.4	2.9
Roofing materials	2.6	4.8	4.3	4.9	2.6	2.5
Water supply materials	2.6	3.5	7.2	3.2	4.1	1.7
Railway construction materials	0.2	0.5	0.7	0.2	0.1	0.8
Road-making materials	0.4	0.2	0.2	0.3	0.2	0.1
Building materials	5.1	4.7	3.7	9.3	9.2	4.3
Other durable materials	6.6	10.3	8.3	12.5	8.3	12.2
	—	—	—	—	—	—
Total	29.5	36.4	41.6	49.4	39.9	24.5

ANNEX TABLE 10

Gross domestic fixed capital formation in buildings and construction
(excluding non-permanent buildings 1966-67)

(million NØ)

1960	107.4
1961	128.2
1962	122.6
1963	135.2
1964	151.0
1965	154.9
1966	152.3
1967	138.0

with the rise in imports (Annex Table 10). Inspection of the figures suggests a possible compression of N $\text{\textcircled{C}}$ 9.3 million or US \$ 13 million in 1965 at the prevailing prices and exchange rates.

Total compression in 1965 could therefore have totalled about N $\text{\textcircled{C}}$ 34 million or US \$ 47 million in 1965. This would have represented just over 10 per cent of actual imports.

Imports in 1966 and 1967

It is very difficult to find evidence that imports could have been cut in these years without disruption. Both were years when severe restrictions were imposed and shortages were experienced. Despite the refusal of licences, consumer goods were entering the country by various means and in 1966, for example, imports of private cars continued at the previous rate despite the fact that no foreign exchange was allowed for this item at all. Early in 1967 the Ghana Government, assisted by IBRD, carried out an exercise to determine the imports needed to maintain the development programme, but in the event actual imports fell below the agreed level owing to shortage of finance (see Annex table 11). The price index adopted to construct the table may exaggerate the shortfall, and part of the price rise may have been built into the list of requirements. It may be noted that imports of non-durable goods fell well below the minimum requirements while in durables the discrepancy was in the opposite direction. The investment sector was clearly the most affected, and (see Annex Table 12) total investment fell substantially. Development was plainly disrupted.

Conclusions

In round figures Ghana's actual imports were \$460 million in 1965. We have suggested above a total compression of \$47 million in that year, a figure which could be rounded to \$50 million, yielding a minimum figure of \$410 million for 1965. The last figure of minimum imports can reasonably be applied to the years 1966 and 1967, when actual imports were, of course, significantly lower, leading inevitably to the implication that there was no scope for compressing imports any further in these two years.

In 1964 imports were also well below the supposed minimum figure, but we did not find direct evidence of disruption of development in that year and may treat it as a neutral one, i.e. as a year in which "compressibility" was neither positive nor negative, but zero.

ANNEX TABLE 11

Actual imports, 1966 and 1967, and
"required" 1967

(million N¢)

	<u>Obtained</u> <u>1966</u>	<u>"Required"</u> <u>1967</u>	<u>Obtained 1967</u> <u>(1966 prices)</u>
Food	31.0	39.6	31.6
Non-durable consumer goods	37.1	35.0	27.5
Durable consumer goods	9.6	6.4	9.9
Fuel and lubricants	10.4	12.2	10.8
Raw materials	46.1	70.2	49.4
Construction materials	39.9	31.2	20.6
Capital equipment and spare parts	76.5	93.2	42.0

Source: Ghana's economy and aid requirements in 1967, Economic Survey 1967

Note: It is very possible that the implicit deflation of import prices overstates the 1966-67 import price rise (given as 43 per cent), used for all categories except food. The shortfall in imports may therefore be exaggerated.

ANNEX TABLE 12

Gross domestic fixed capital formation in
1960 prices

(million N¢)

1960	194
1961	200
1962	182
1963	216
1964	221
1965	250
1966	207
1967	162

Source: Economic Survey 1967

In the years 1960-63, imports averaged \$370 million at current prices or about \$405 million at 1965 prices. In view of the closeness of this level to the minimum suggested by the detailed investigation of 1965 (at 1965 prices), and of the strong evidence of a trend to import substitution discovered above, it seems reasonable to regard all these years, both individually and collectively, as neutral years; there were of course fluctuations, but these could reasonably be attributed to stock changes. (In one year, 1960, imports were at about the supposed minimum, in another, 1961, about 7 per cent over and in another about 7 per cent under. It would seem rather arbitrary to assign positive or negative compressibility to particular years in this cycle). Another way of looking at the matter is by noting that, if in fact the figures for the years 1965, 1966 and 1967 are adjusted to the suggested "normal" or "minimum" level, the apparent downward trend in the volume of total imports, noted in the opening section of this annex, disappears, and the level of imports appears constant over the whole period. This implies a rate of over-all import substitution which, though still brisk, is less spectacular.

We thus infer that imports could have been compressed by \$50 million in 1965, but that since imports were \$50 million below the minimum in 1966, there was no scope for compressibility in that year. For 1967, imports were already \$40 million below the minimum, so that there was no scope for further compressibility.

ANNEX C

Estimates of IMF compensatory finance and of
use of reserves

IMF Compensatory Financing Facility

The IMF norm for year T is 50% (Earnings year T) + 25% (Earnings year T-1) + 25% (Earnings year T-2).

The results for Ghana are given in Annex Table 13.

ANNEX TABLE 13

Ghana's exports and IMF norms
(million N¢)

Year	Actual exports	IMF norm	Shortfall
1958	209		
1959	227		
1960	231	224	-
1961	289	256	-
1962	230	244	14
1963	217	237	20
1964	229	225	-
1965	226	224	-
1966	191	199	8
1967	245	236	-

Translated into US dollars the shortfalls are \$19 million, \$28 million and \$11 million for 1962, 1963 and 1966 respectively. It is understood that Ghana's maximum permissible drawing in any year is \$17 million, which can be repeated in one successive year, from which it is inferred that it would actually have drawn \$17 million in both 1962 and 1963 and \$11 million in 1966.

Reserve use

We suppose that a country such as Ghana, dependent for 60 per cent of its earnings on a commodity whose price has a year-to-year coefficient of variation of about 30 per cent, a reasonable minimum level of reserves would be at least three months' normal imports. This suggests a minimum level of \$100 million, on the grounds that normal imports are \$410 million.

On 1 January 1960, Ghana's reserves (including IMF drawing rights, etc.) apparently stood at about \$450 million, but by 1 January 1962 the figure had already been reduced to \$200 million. The calculated cocoa shortfalls in Annex Table 2 above for 1960 and 1962 amounted to about \$45 million, and the main explanation for the discrepancy between this figure and the decline in the reserves is to be found in a sharp increase in imports which occurred between 1959 and 1960 (and also because 1961 was, as already noted, a year of above-normal imports). In other words, given the arguments of Annex B, the level of imports in the late 1950's was very much below the minimum required for development; this is a reasonable inference from the fact that a policy of more intensive development was, in fact, initiated at that time. We assume that it is not our purpose to inquire into the historical circumstances leading to the level of reserves at the beginning of a planning period. In any period beginning in 1960, we assume that the cumulative permissible decline in reserves would have been \$350 million, but for any period beginning in or after 1962 a decline of only \$100 million would have been taken into account (Ghana's present reserves are, of course, considerably lower). Since these assumptions are entirely a matter of judgment, and are clearly open to question, the reader is free to make alternative assumptions and to modify the calculations accordingly.



Distr.
GENERAL

TD/B/C.3/AC.3/28/Add.4
2 May 1969

Original: ENGLISH

United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD

Committee on Invisibles and Financing
related to Trade

Inter-governmental Group on Supplementary Financing

Fifth session

New York, 23 June 1969

HYPOTHETICAL CASE STUDIES IN SUPPLEMENTARY FINANCING

A case study of Sudan, 1961/62 to 1965/66

Report by the UNCTAD secretariat

GE.69-10255

EXPLANATORY NOTES

The following symbols have been used in the tables throughout this document:

Three dots (...) indicate that data or other information are not available or are not separately reported; a dash (-) indicates that the amount is nil or negligible; a slash (/) indicates a fiscal year, e.g. 1965/66. Use of a hyphen (-) between years, e.g. 1963-65, signifies the full period involved, including the beginning and end years.

Details and percentages in tables do not necessarily add to totals, because of rounding.

1. This study seeks to determine, under certain assumptions, the amount of supplementary finance which might have been available to Sudan from 1961/62 to 1965/66, had a scheme for supplementary financing along the lines of the World Bank staff scheme been in operation during this period. The procedure involves estimation of (i) gross export shortfalls during the period under examination; (ii) the possible use of the IMF Compensatory Financing Facility; (iii) the country's reserves and (iv) the scope for feasible domestic adjustments as an offset to export shortfalls.
2. The Bank staff scheme measures the gross export shortfall during any given time period as the shortfall of actual exports from the pre-agreed projected value of exports. The projection of export earnings used in this study is taken from an official government document entitled "The Ten-Year Plan of Economic and Social Development, 1961/62, to 1970/71", published by the Economic Planning Secretariat, Ministry of Finance and Economics. Opinion has been sought from authoritative sources as to the soundness of the export projections used, the consensus of which is that they were neither over-optimistic nor unreasonable.
3. Line 3 of Table 1 shows the gross export shortfall and is the amount by which actual exports (line 2) fall short of projected exports (line 1). Thus during the five-year period analysed there were export shortfalls in 1964/65 and 1965/66, the former being \$22 million and the latter \$9 million. ^{1/}

^{1/} The export of cotton is the major source of income for Sudan, accounting for about 50 per cent of the total value of exports during the period studied. The export income from cotton in turn can be influenced by variations in the level of stocks of cotton carried over by Sudan from year to year. It appears that in 1964/65 there was a more than normal increase in the level of producers' stocks. This may have been due to the Sudan Government's policy of setting a reserve selling price for cotton which was above the prevailing world price.. This may, in part, have contributed to the export shortfall in 1964/65. However, because of the obvious difficulties in assessing the quantitative impact of this policy, the estimate of the export shortfall for 1964/65 has not been adjusted. For one thing, since Sudan provides a substantial proportion of internationally traded supplies of long and extra-long staple cotton, a significant increase in the export volume offered for sale would probably have led to a decline, of uncertain magnitude, in the export prices realized. Secondly, opinions may differ regarding the level of stocks considered normal for carry-over from one year to another. Rough estimates indicate that adjustment for the above factor would not make any significant difference to the subsequent discussion. The foregoing does not, of course, imply any judgment on the cotton pricing policy of Sudan.

TABLE 1

Estimation of the export shortfall
(million US \$)

	1961/62	1962/63	1963/64	1964/65	1965/66
Projected exports ^{a/}	194	222	210	217	222
Realized exports	195	251	236	195	213
Gross export earnings shortfall	-	-	-	22	9

Sources: The projected figures are taken from "The Ten Year Plan of Economic and Social Development, 1961/62 - 1970/71", Ministry of Finance and Economics. The actual ("realized") figures are taken from the Economic and Financial Bulletin, Bank of Sudan

^{a/} The decline in projected exports from \$222 in 1962/63 to \$210 million in 1963/64 arises from an allowance made for the expected decline in the production of cotton from a bumper crop which occurred in 1961/62 and which was sold in 1962/63.

4. An estimate of the assistance available to Sudan under the IMF Compensatory Financing Facility has been arrived at on the basis of the Fund formula which assigns a weight of 50 per cent to the exports of the current year and 25 per cent each to exports of the two preceding years for the estimation of the medium term trend. Assuming further that only 25 per cent of the quota can be drawn during any single year under the Compensatory Financing Facility and that total outstanding drawings must not exceed 50 per cent of a country's quota, Sudan would have received approximately \$11 million in 1964/65 and \$1 million in 1965/66 under the Compensatory Financing Facility. ^{1/}

5. Between start of fiscal 1961/62 and the end of fiscal 1964/65, Sudan's gross reserves fell by \$108 million. In June 1961, their level was \$175 million. By June 1964, they had declined to \$109 million and by June 1965 they stood at \$67 million. In order to estimate the possible usage of reserves to finance the export shortfall, it is necessary to have some idea of the minimum level of reserves, i.e. the point below which it is not considered prudent for the country to run down reserves further. After consultations on this matter an arbitrary floor for reserves equivalent to three months' average imports for the period as a whole was selected, this is \$62 million. Thus, by June 1965, when reserves stood at \$67 million, it is assumed that there could be little further recourse to reserves.

6. In the first year of identified shortfall 1964/65, IMF compensatory finance plus use of reserves would have fully covered the shortfall, i.e. the shortfall was \$22 million, IMF compensatory finance would have provided \$11 million and reserves would have been drawn down by \$11 million (in June 1964 reserves were standing at \$109 million, \$42 million above their assumed minimum level). Hence there was no need to estimate the scope for adjustment in imports for that year. However, in the second year of shortfall, 1965/66, IMF compensatory finance would have provided only \$1 million. Furthermore, reserves were almost at their assumed minimum level and thus could not be used in financing the shortfall of \$9 million.

^{1/} On 17 March 1965, Sudan's IMF quota was increased from \$15 million to \$45 million. This increase falls within the Sudanese fiscal year 1964/65 and the new quota has been assumed to apply for the compensatory drawing of that year and succeeding years.

TABLE 2

Imports: Commodities considered ineligible for
supplementary finance

(US \$)

Commodity	July 1964 to June 1965 (year 1964/65)	July 1965 to June 1966 (year 1965/66)
Alcoholic beverages	240 498	249 686
Cigarettes	3 461 067	2 538 549
Perfumery, materials, cosmetics and dentrifices	763 010	1 067 672
Household china	41 319	7 151
Table and household porcelain	502 109	956 465
Ornaments of china and porcelain	2 835	2 165
Non-electric refrigerators	70 361	66 771
Domestic electrical equipment	963 396	652 423
Photographic and cinematographic appliances and apparatus	194 087	124 691
Gramophones, parts, records and tape recorders	145 378	130 360
Toys and games	224 162	199 146
Photographic films, plates and other supplies	127 973	289 842
Furniture and fixtures ^{a/}	192 599	230 794
Biscuits	859 926	1 353 732
Jams and marmalades	176 898	355 344
TOTAL	7 965 618	8 224 692

Source: Foreign Trade Statistics, Department of Statistics, Headquarters Council of Ministers, Republic of the Sudan.

^{a/} Excluding items for office and medical purposes, and excluding also items originating in the United Arab Republic with which Sudan has a bilateral exchange treaty.

TABLE 3

Estimation of supplementary finance to Sudan for the
years of shortfall 1964/65 and 1965/66

(million US \$)

Year of shortfall	Gross shortfall <u>a/</u>	IMF Compensatory Facility <u>b/</u>	Use of reserves	Ineligible imports	Use of supple- mentary finance
1964/65	22	11	11	- <u>c/</u>	-
1965/66	9	1	-	8 <u>d/</u>	-

a/ See Table 1, line 3.

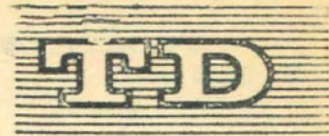
b/ Estimated using the Fund formula.

c/ It is not necessary to estimate this for the year 1964/65 as IMF compensatory finance (\$11 million) plus use of reserves (\$11 million) fully meet the shortfall (\$22 million).

d/ See Table 2.

In this case, one must investigate the scope for adjustment of imports. This has been conducted in the following manner: the import bill for 1965/66 was examined on a commodity-by-commodity basis to evaluate the scope for adjustment. Table 2 sets out those commodities which, after consultations with various international agencies, are considered ineligible for supplementary financing. For the year 1965/66 the total of ineligible items amounted to \$8 million. Thus against the shortfall of \$9 million in 1965/66, the Compensatory Financing Facility would have provided \$1 million, while ineligible imports were valued at \$8 million. On this reasoning, therefore, Sudan would not have qualified for supplementary finance.

7. The five-year period investigated includes two years of identified shortfalls. For the period as a whole the accumulated shortfall was \$31 million, and to meet this the IMF Compensatory Facility was assumed to have provided \$12 million, reserves were assumed to have been drawn down to the extent of \$11 million and ineligible imports in 1965/66 were valued at \$8 million. In these particular circumstances and on the foregoing specific assumptions, no supplementary finance would have been considered necessary in the case of Sudan.



Distr.
GENERAL

TD/B/C.3/AC.3/28
1 May 1969

Original: ENGLISH

United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD
Committee on Invisibles and Financing
related to Trade
Inter-governmental Group on Supplementary Financing
Fifth session
New York, 23 June 1969

HYPOTHETICAL CASE STUDIES IN SUPPLEMENTARY FINANCING

Report by the UNCTAD secretariat

GE.69-10229

EXPLANATORY NOTES

The following symbols have been used in the tables throughout this document:

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Details and percentages in tables do not necessarily add to tables, because of rounding.

1. At its fourth session the Intergovernmental Group on Supplementary Financing considered a paper by Mr. Eprime Eshag entitled "Quantification of disruptive effects of export shortfalls" (TD/B/C.3/AC.3/23). This paper analysed the disruptive effects of export shortfalls on the economies of the developing countries, drawing, for purposes of illustration, on the experience of Ceylon, Colombia and Ghana. In requesting the UNCTAD secretariat to develop this study further, the Group raised the following questions:

"To what extent could the study included in document TD/B/C.3/AC.3/23 be further developed in order to illustrate more clearly the adjustment measures by these countries in which substantial export shortfalls occurred? Can these studies indicate the minimum assistance that would have been required to maintain imports considered essential to the development programme?" ^{1/}

The present paper has been prepared in response to this request. It summarizes the experience of four countries during the 1960's, including the three countries studied in document TD/B/C.3/AC.3/23, namely Ceylon, Colombia and Ghana, together with Sudan. An attempt has been made to estimate the minimum amount of assistance that would have been required by these countries in the face of export shortfalls. The individual country studies are being issued as addenda to this paper

2. Recommendation A.IV.18 of the first session of UNCTAD defined export shortfalls as shortfalls from "reasonable expectations". In the present study, which involves an ex post analysis of the experience of four countries during the 1960's, the following procedure has been adopted for the quantification of "reasonable expectations" in respect of exports during the period under study. For Ceylon, Colombia and Sudan, use was made of such export projections as were available at the start of the time period investigated, either from national or international sources. Where country sources were used, opinion was sought as to the "soundness" of these projections, in the sense that they took account of all the relevant information available at the time. The figures for ~~realized~~ exports were then compared to the projected value of exports in order to identify a gross export shortfall.

^{1/} Annex I to the Chairman's report, TD/B/200, TD/B/C.3/53, TD/B/C.3/AC.3/25.

3. While only one set of projections was available for Colombia and Sudan, two sets of projections were available for Ceylon and export shortfalls for Ceylon were therefore calculated with reference to both sets. The period analysed in the case of Colombia was 1962-67. The export projection used in this case was made in 1962 by an international agency, taking into account the Ten Year Plan of Colombia. The projection was revised in 1964. For Sudan, the period analysed was 1961/62-1965/66 and the export projection for this period was taken from Sudan's "The Ten Year Plan of Economic and Social Development 1961/62-1970/71", published by the Ministry of Finance and Economics, Republic of Sudan. For Ceylon the period examined in this study was 1961-67. The first projection for this period, made in 1958, was based on the Ceylon National Planning Council's Ten Year Plan, 1959. The second projection was made in 1961 by an international agency.^{1/} The study for Ghana was undertaken by Dr. R.L. Marris and Dr. R.F.T. King. In this study, the projected values of exports for Ghana were estimated in terms of three hypothetical planning periods, each of five years duration. Projections for the first and second planning period (1960-64 and 1962-66 respectively) were based on the historical data for 1950-59. The projection for the third period, 1963-67, represented an attempt to incorporate partial revisions in export expectations that became necessary in the light of actual experience during 1960-62.^{2/} The analysis of export expectations and export shortfalls for Ghana was confined to cocoa, which represented over 60 per cent of Ghana's total exports in 1960.

4. In calculating the hypothetical amount of assistance that would have become available to the four countries under the Fund's Compensatory Financing Facility, it was assumed that the IMF scheme was in existence throughout the time period covered in the country studies. It was further assumed that there were no outstanding drawings under the compensatory financing facility at the start of the period. Another assumption is that only 25 per cent of the quota could be drawn in any single year and that the limit on total outstanding drawings would not exceed 50 per cent of quota.

^{1/} As it turns out, the second projection, although made in 1961, yields generally higher projected values of exports and export shortfalls than the first projection made in 1958. The two projections were of course made by different agencies, but assuming that both of them were based on the best available information at the time this does imply that a revision of projections need not always add to their accuracy.

^{2/} In this case, the revision of projections does lead to a reduction in the values of gross export shortfalls. For example, whereas estimates of gross export shortfalls during 1963 and 1964 for periods one and two are \$54 and \$62 million, the projected values of exports for these two years for period three do not yield any shortfall.

5. Shortfalls under the Fund's Compensatory Financing Facility are measured as negative deviations from the medium-term trend value of exports for any particular year which, in turn, is defined as the average value of exports over a five-year period, starting two years before the year of the shortfall and ending two years after it. In order to obtain a practical approximation to the medium-term trend value of exports, the Fund uses two different methods. The first method estimates the trend value of exports for the current year on the basis of actual export performance of the country concerned during the current and two preceding years. For this purpose, the exports of the preceding years have a weight of 25 per cent each, while the weight attached to the current year's exports is 50 per cent. The second method involves a forecast of exports for the two years following the year of the shortfall, thereby making it possible to calculate an average of five years centred on the shortfall year. The second method has been found by the Fund to give better results than the first, and it is given greater weight in the final estimate of the medium-term trend value. However, in calculating the amount of assistance available under the Fund's Compensatory Facility, the present study has relied on the first method referred to above for the estimation of the medium term trend, because no information was available on which to base the two-year export forecasts which would have been required for the second method. In so far as in an economy with a strongly upward trend in exports the first method may involve a somewhat lower estimate of the medium-term trend than given by the second method, its use may give a downward bias to the estimation of assistance to be expected under the Compensatory Financing Facility.

6. It is also to be presumed that a country would normally have recourse to its reserves as an offset to export shortfalls, insofar as such reserves are considered adequate for this purpose. What constitutes a prudent use of reserves involves a complex act of judgment. In the present study, it has been assumed that a country's reserves would not be allowed to fall below a certain minimum level. The minimum level of reserves in turn would vary from country to country depending on fluctuations in exports and in other items of the balance of payments and perhaps also on the availability and terms of short term credits. In the light of consultations on this matter, it has been assumed that the minimum level of reserves for each of the four countries included in this study would be equal to the value of three months normal imports.

7. Countries experiencing export shortfalls would be in a position to absorb part of the impact of such shortfalls through domestic adjustments permitting a reduction in non-essential imports. Thus, the greater the scope for such adjustments, the smaller would be the need for supplementary finance. The scope for a reduction of imports during any given time period depends upon the minimum amount of imports considered essential for development. This in turn depends on the planned rate of growth of output as well as on the structure of planned final demand and of domestic production. Unfortunately, because of lack of information, this approach could not be adopted in an ex post analysis of the type undertaken in this study. As a second best alternative, the scope for domestic adjustments during any given time period was determined by an examination of the actual import bill. The import bill was scrutinized so as to locate such items as would not be regarded as eligible for supplementary finance. A reduction in the import of capital goods could generally not be contemplated without affecting the rate of investment; similarly, a reduction in the import of raw materials and intermediate products would normally have adverse effects on the utilization of available productive capacity. For this reason, most of the non-eligible items selected belong to the category of final consumer goods.^{1/} Admittedly, this is a very imperfect device to estimate the scope for domestic adjustments as an offset to export shortfalls. For example, the availability of some consumer goods may have important effects on the incentive to work and save; and in some cases, the favourable developmental impact of certain types of capital outlays (such as luxury construction) may be small. However, given both the limitations of data as well as of time, it was not generally possible to incorporate such refinements.

8. The estimates of the minimum amount of assistance that would have been needed by the four countries in the face of the export shortfalls experienced by them during the period analysed are set out in Tables 1 to 4. Seven different estimates of cumulative gross export shortfalls and of cumulative supplementary financial assistance have been made in respect of the four countries and these results are summarized in Table 5. It turns out that the estimates of cumulative supplementary financial assistance expressed as a percentage of the corresponding cumulative gross export shortfalls range from 0 to 51, the median value being 31.

^{1/} The existence of "non-eligible" items in a country's import bill does not imply any judgment on its import policy.

TABLE 1

Ceylon: Hypothetical estimates of supplementary
financial assistance, 1961-67

(million US \$)

	<u>Estimate A</u> ^{a/}						
	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
1. Gross export shortfall	12	-	19	2	-	52	78
2. Hypothetical use of IMF Compensatory Financing Facility	6	-	4	-	-	20	17
3. Hypothetical use of reserves	-	-	-	-	-	-	-
4. Adjustment for imports consi- dered ineligible for supple- mentary finance <u>b/</u>	6	-	15	2	-	23	17
5. Amount of supplementary finance needed <u>c/</u>	-	-	-	-	-	9	44
6. Supplementary finance as per cent of gross export shortfall	-	-	-	-	-	17	56
	<u>Estimate B</u> ^{d/}						
	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
1. Gross export shortfall	31	25	49	33	30	87	112
2. Hypothetical use of IMF Compensatory Financing Facility	6	-	4	-	-	20	17
3. Hypothetical use of reserves	-	-	-	-	-	-	-
4. Adjustment for imports consi- dered ineligible for supple- mentary finance <u>b/</u>	25	25	23	25	21	23	17
5. Amount of supplementary finance needed <u>c/</u>	-	-	22	8	9	44	78
6. Supplementary finance as per cent of gross export shortfall	-	-	45	24	30	51	70

a/ Based on export projection made in 1958.

b/ The figures in this line are not necessarily equal to total imports of non-eligible items. Total imports of non-eligible items for each year from 1961 onward were as follows (million US dollars: 28,25,23,25,21,23 and 17).

c/ Arrived at by deducting from the gross export shortfall: hypothetical use of IMF compensatory financing facility, the hypothetical use of reserves and imports considered ineligible for supplementary finance.

d/ Based on export projection made in 1961.

TABLE 2

Colombia: Hypothetical estimates of supplementary
financial assistance, 1962-67

(million US \$)

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
1. Gross export shortfall	60	81	-	20	86	68
2. Hypothetical use of IMF Compensatory Financing Facility	-	2	-	-	16	7
3. Hypothetical use of reserves	-	-	-	-	-	-
4. Adjustment for imports considered ineligible for supplementary finance <u>a/</u>	47	44	-	-	57	51
5. Amount of supplementary finance needed <u>b/</u>	13	35	-	20	13	10
6. Supplementary finance as per cent of gross export shortfall	22	43	-	100	15	15

a/ The figures in this line are not necessarily equal to total imports of non-eligible items.

b/ Arrived at by deducting from the gross export shortfall: hypothetical use of IMF Compensatory Financing Facility, the hypothetical use of reserves and imports considered ineligible for supplementary finance.

TABLE 3

Ghana: Hypothetical estimates of supplementary financial assistance
(million US \$)

		<u>Period A (1960-64)</u>				
		<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>
1.	Gross export shortfall	20	24	40	54	62
2.	Hypothetical use of IMF Compensatory Financing Facility	-	-	14	20	-
3.	Hypothetical use of reserves	20	24	26	34	40
4.	Adjustment for imports considered ineligible for supplementary finance	-	-	-	-	-
5.	Amount of supplementary finance needed ^{a/}	-	-	-	-	22
6.	Supplementary finance as per cent of gross export shortfall	-	-	-	-	35
		<u>Period B (1962-1966)</u>				
		<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
1.	Gross export shortfall	40	54	62	82	152
2.	Hypothetical use of IMF Compensatory Financing Facility	14	20	-	-	8
3.	Hypothetical use of reserves	26	34	40	-	-
4.	Adjustment for imports considered ineligible for supplementary finance	-	-	-	50	-
5.	Amount of supplementary finance needed ^{a/}	-	-	22	32	144
6.	Supplementary finance as per cent of gross export shortfall	-	-	35	40	95
		<u>Period C (1963-67)</u>				
		<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
1.	Gross export shortfall	-	-	40	30	-
2.	Hypothetical use of IMF Compensatory Financing Facility	20	-	-	8	-
3.	Hypothetical use of reserves	-	-	-	-	-
4.	Adjustment for imports considered ineligible for supplementary finance	-	-	40 ^{b/}	-	-
5.	Amount of supplementary finance needed	-	-	-	22	-
6.	Supplementary finance as per cent of gross export shortfall ^{a/}	-	-	-	73	-

^{a/} Arrived at by deducting from the gross export shortfall: hypothetical use of IMF Compensatory Financing Facility, the hypothetical use of reserves and imports considered ineligible for supplementary finance.

^{b/} Total imports of items considered ineligible for supplementary finance amounted to \$50 million in 1965. However, since the gross export shortfall for that year in period C was only 40 million dollars, this latter figure was used as a measure of adjustment on account of imports considered non-eligible for supplementary finance.

TABLE 4

SUDAN: Hypothetical estimates of supplementary financial assistance,
1961/62-1965/66
 (million US \$)

	<u>1961/62</u>	<u>1962/63</u>	<u>1963/64</u>	<u>1964/65</u>	<u>1965/66</u>
1. Gross export shortfall	-	-	-	22	9
2. Hypothetical use of IMF Compensatory Financing Facility	-	-	-	11	1
3. Hypothetical use of reserves	-	-	-	11	0
4. Adjustment for imports considered non-eligible for supplementary finance	-	-	-	0 ^{a/}	8
5. Amount of supplementary finance needed ^{b/}	-	-	-	-	-
6. Supplementary finance as per cent of gross export shortfall	-	-	-	-	-

^{a/} No adjustment was necessary as the shortfall was fully financed by the use of the IMF Compensatory Financing Facility and reserves.

^{b/} Arrived at by deducting from the gross export shortfall: hypothetical use of IMF compensatory financing facility, the hypothetical use of reserves and imports considered ineligible for supplementary finance.

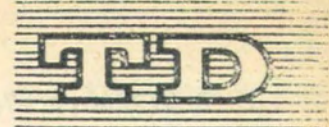
TABLE 5

Hypothetical estimates of cumulative gross export shortfalls
and cumulative supplementary financial assistance for four
developing countries

(million US \$)

	<u>Cumulative gross export shortfall</u>	<u>Cumulative supplementary financial assistance</u>	<u>Cumulative supplementary financial assistance as per cent of cumulative gross export shortfall</u>
Ceylon (1961-67)			
Estimate A	163	53	33
Estimate B	367	161	44
Colombia (1962-67)	315	91	29
Ghana:			
Period A (1960-64)	200	22	11
Period B (1962-66)	390	198	51
Period C (1963-67)	70	22	31
Sudan (1961/62-1965/66)	31	0	0

Source: Tables 1 to 4.



Distr.
GENERAL

TD/B/C.3/AC.3/28/Add.1
1 May 1969

Original: ENGLISH

United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD

Committee on Invisibles and Financing
related to Trade

Inter-governmental Group on Supplementary Financing

Fifth session

New York, 23 June 1969

HYPOTHETICAL CASE STUDIES IN SUPPLEMENTARY FINANCING

A case study of Ceylon, 1961-67

Report by the UNCTAD secretariat

EXPLANATORY NOTES

The following symbols have been used in the tables throughout this document:

Three dots (...) indicate that data or other information are not available or are not separately reported; a dash (-) indicates that the amount is nil or negligible; a slash (/) indicates a fiscal year, e.g. 1965/66. Use of a hyphen (-) between years, e.g. 1963-65, signifies the full period involved, including the beginning and end years.

Details and percentages in tables do not necessarily add to totals, because of rounding.

Introduction

1. The main objective of this study is to determine, under certain assumptions, the amount of supplementary finance which might have been available to Ceylon, had a scheme for supplementary financing been operative during the period 1961-67. The first step in determining this amount is to quantify the gross shortfall in export earnings. In order to do so, actual exports are deducted from the export projections which were available for the period under study. The amount of supplementary finance for the period 1961-67 is then determined by deducting non-eligible imports, the possible use by Ceylon of the IMF Compensatory Financing Facility and the possible use of reserves from the gross export shortfall. Each of these steps is described in the sections below.

2. For Ceylon, the year 1960 marks the end of a phase in which expansionist budgets led to increases in domestic demand which were met mainly through increased imports.^{1/} During the 1950's, the use of foreign exchange reserves permitted the country to finance payments deficits. In the year 1957, reserves still exceeded \$200 million.^{2/} However, by the end of 1960, reserves had fallen to approximately \$90 million. At this level the decline in reserves had to be halted and the restriction of imports became an immediate objective. Import duties on a variety of products were increased sharply and quantitative controls were introduced on imports of watches and textiles.

3. During the period 1960-67 balance of payments deficits were financed mainly by borrowing. During this period, Ceylon borrowed heavily from the International Monetary Fund and had recourse to supplier's credits, a large part of which must be repaid within a five-year period.

Export shortfalls

4. In this study, two estimates of export projections were used to arrive at export shortfalls. Estimate A shown in Table 1 was made in 1958. Estimate B was made early in 1961 and is substantially higher than the earlier projections. The export shortfalls which result reflect these differences.

Use of IMF

5. As noted above, Ceylon has made increasing use of the Fund facilities. Drawings outstanding rose from \$11 million in 1961 to \$79 million in 1967. In 1967 use was

^{1/} Central Bank of Ceylon, Annual Report of the Monetary Bank to the Minister of Finance for the year 1960, p.4.

^{2/} IMF, International Financial Statistics, Supplement to 1967/68 issues, p.58

made of the Fund's Compensatory Facility. As is shown in Table 1, on the basis of the Fund formula alone (see footnote c/ of Table 1), use could have been made of the compensatory facility in 1961, 1963, 1966 and 1967.

Reserves

6. It is not envisaged that Ceylon would have drawn further on reserves in response to export shortfalls. The level of reserves during the period 1961-63 were roughly equal to 3 month's imports and were even less during the period 1964-67. The actual use of reserves during the period 1961-67 could well be regarded as excessive.

Non-eligible imports

7. The total value of imports for Ceylon, shown in Table 1, averaged \$ 368 million annually over the period 1961-67. Consumer goods have been the main component of total imports, averaging approximately 57 per cent of the value of imports over the period 1961-67.^{1/} Intermediate goods accounted for 24 per cent and investment goods for 19 per cent of total imports over the period.

8. Certain imports would presumably not have been eligible for supplementary finance. These are described as "non-eligible" imports. In order to determine the value of such imports during this period, each item of imports listed in the Ceylon customs returns was examined by the secretariat for each year of the period 1961-67 and a judgment was made as to whether part or all of the item should be regarded as non-eligible.

9. Two criteria were used in determining which imports should be regarded as non-eligible. First, items which were considered to be non-essential or postponable were regarded as non-eligible. Second, certain essential products, such as rice and fish, were regarded as non-eligible in those instances in which it seemed likely that the agreed policy would have been to reduce imports of such items so as to encourage increased domestic production. Since this could not be accomplished in a one-year period, it was assumed that certain percentages of these items were non-eligible in years of export shortfalls as part of a longer-term objective. On the basis of the above criteria, only consumer goods have been classified as non-eligible in Table 2.

10. As is shown in lines (9) and (11) of Table 1, the value of non-eligible imports was relatively small in comparison to total imports. Over the period 1961-67, non-eligible imports accounted for 6 per cent of the total value of imports.

^{1/} Food and drink have accounted for approximately 44 per cent of the total value of imports over this period.

TABLE 1
Data on hypothetical use of supplementary finance, 1961-67
(million US \$)

<u>Exports (f.o.b.)</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
(1) Projected exports: estimate A ^{a/}	365	370	377	389	398	410	425
(2) Projected exports: estimate B ^{b/}	384	395	407	420	432	445	458
(3) Actual exports	353	371	358	387	402	358	347
<u>Shortfalls from projected exports</u>							
(4) (1) - (3)	12	-	19	2	-	52	78
(5) (2) - (3)	31	25	49	33	30	87	112
<u>Use of IMF</u>							
(6) (a) Hypothetical compensatory drawing ^{c/}	6	-	-	-	-	20	17
(b) Actual compensatory drawing	-	-	-	-	-	-	20
(7) Drawings outstanding	11	22	22	22	30	57	79
<u>Reserves</u>							
(8) Total	90	84	75	51	73	43	50
<u>Imports (c.i.f.)^{d/}</u>							
(9) Actual ^{c/}	359	353	339	400	355	401	372
(10) Annual change	-52	-6	-14	61	-45	46	-29
(11) Non-eligible imports of consumer goods	28	25	23	25	21	23	17

- a/ Estimate A of projected exports is based on the Ceylon National Planning Council, The Ten-Year Plan, 1959. The projected values for tea, rubber and coconut products were taken from the plan itself for each year of the period 1961-67. The total for these three products was grossed up on the assumption that they accounted for 91 per cent of total imports every year: this was in fact the proportion recorded in 1958. The values for exports of coconut products have been estimated according to Scheme B of the plan. The projections were made in the year 1958.
- b/ Estimate B of projected exports is based on estimates by international agencies and assumes that total exports rise at an average annual rate of 3 per cent. This estimate was made in 1961.
- c/ The formula used in calculating the amounts of the hypothetical compensatory drawings in each year attaches a weight of 0.50 to exports of the year for which the shortfall is being estimated, 0.25 to the preceding year, and 0.25 to the second preceding year.
- d/ Imports are based on the Ceylon customs returns. For a number of years these figures differ substantially from those in the payments returns, even when allowance is made for the accountable differences in the two figures. The major difference is in the item "machinery", and thus the estimation of non-eligible imports would not be seriously affected since imports of machinery are not among the items classified as non-eligible.
- e/ Customs data adjusted for Food Commissioner's actual imports of rice, flour and sugar supplied by the Ministry of Planning and Economic Affairs.

TABLE 2

Non-eligible imports, 1961-67
(thousand Ceylon rupees)

	1961	1962	1963	1964	1965	1966	1967
Natural honey	23	35	26	33	2	5	17
Fish (excluding live) and crustacea <u>a/</u>	13 749	11 139	12 182	13 707	11 184	18 779	10 491
Rice <u>b/</u>	21 733	24 820	24 410	28 260	34 180	26 130	23 990
Malt <u>b/</u>	78	80	105	180	100	113	172
Biscuits	810	94	94	70	104	112	59
Bakery products, other	698	803	815	861	885	852	246
Edible nuts and seeds	141	85	141	33	-	5	-
Dried fruits	3 620	5 240	4 680	5 030	5 340	5 530	6 050
Fruit juices and cordials	2 137	1 781	2 079	2 664	943	2 813	684
Potatoes (excluding sweet)	20 497	22 233	26 076	25 462	17 909	24 053	6 696
Onions <u>b/</u>	2 135	1 975	2 160	2 581	2 068	1 981	1 780
Garlic <u>c/</u>	1 578	1 586	2 165	1 326	1 163	1 636	1 510
Molasses	121	187	193	110	1 298	586	41
Sugar products	1 527	1 982	1 138	1 983	1 068	1 580	1 062
Coffee	435	116	-	-	-	-	1
Cocoa and chocolate	457	1 086	-	4	2	-	-
Chillies, dried (red pepper) <u>b/</u>	3 290	3 634	3 786	4 647	3 001	4 255	2 933
Spices	583	548	370	534	577	670	705
Non-alcoholic beverages	2	4	2	-	-	-	-
Alcoholic beverages	4 532	2 954	2 506	2 307	1 718	2 123	1 520
Tobacco (including beedies)	12 095	6 463	7 947	3 273	2 804	3 437	818
Cigars and cigarettes	1 162	909	382	263	337	253	317
Ivory, unmanufactured	16	13	5	6	-	39	1
Beedy leaves	4 563	4 089	3 102	4 009	6 271	4 217	4 945
Synthetic perfume	1 352	1 284	1 377	1 792	-	-	-
Powder, face and bath	1 427	14	23	-	-	-	-
Rouge, etc.	129	52	37	72	45	133	20
Eau de Cologne	229	87	20	1	-	4	-
Other perfumery	1 594	1 393	651	581	151	247	94
Hunting and sporting ammunition	-	-	-	-	75	4	52
Images and statues	18	19	1	43	-	3	-
Cigarette paper and other	1 954	273	1 851	402	228	286	867
Thrown silk	-	220	154	67	13	16	36
Silk in tulle, lace, etc.	30	45	8	30	-	31	1
Cotton net and lace, other	377	278	24	9	147	1	2
Glass beads and bangles	210	563	2	1	-	-	-

TABLE 2 (cont'd)

	1961	1962	1963	1964	1965	1966	1967
Mirrors, framed and unframed	1 016	2 647	678	1 164	169	363	110
Table and household articles (clay, porcelain)	1 679	283	486	538	33	10	5
Tableware (spoons, forks, etc.)	190	440	88	67	195	360	538
Indoor ornaments of base metals	-	-	-	-	-	3	-
Bells (non-electric)	-	-	-	-	-	15	-
Jewellery of gold, silver and platinum	3	18	9	4	-	-	2
Imitation jewellery	41	5	2	7	2	-	4
Domestic washing machines	-	-	-	-	10	37	24
Other electric domestic appliances	-	-	-	-	114	38	126
Passenger motor cars	8 028	1 776	2 413	2 634	2 584	3 300	9 884
Domestic furniture, iron and steel	28	64	-	2	5	45	-
Stockings and hose	301	310	40	350	5	59	39
Manufactures of silk and satin	123	13	79	10	2	24	-
Manufactures of artificial silk	9 616	8 456	2 635	6 627	1 225	10	38
Headgear	251	268	51	39	101	142	103
Photo- and cinematographic apparatus ^{d/}	442	570	741	824	362	891	786
Photo- and cinematographic supplies ^{d/}	1 567	1 074	1 843	2 674	1 341	2 373	1 800
Watches and clocks	2 913	1 986	197	165	74	49	11
Gramophones and phonographs	31	24	35	13	42	34	127
Records, tapes, etc.	115	228	106	361	232	234	143
Pianos and organs	161	246	132	198	40	101	28
Other musical instruments	88	120	76	88	75	105	65
Books and pamphlets, printed ^{b/}	158	215	148	172	123	161	216
Pictures and prints, postcards	211	194	86	178	81	86	200
Toys and games	764	74	163	254	116	149	29
Playing cards	263	101	-	1	2	1	1
Arms (non-military)	250	214	188	4	-	167	23
Fishing and hunting equipment	721	1 717	394	702	803	740	273
Golf and tennis balls	122	158	79	160	68	73	42
Natural history specimens	92	17	1	5	3	1	-
Oil paintings	13	1	4	-	-	-	-
Silver plated goods (excluding jewellery)	-	-	-	-	70	2	-
Tailors' dummies	-	-	-	-	5	7	-
Artificial flowers	-	-	-	-	5	8	8
Animals (not for food) (dogs, birds, etc.)	35	5	50	-	90	22	23
Firearms of war	-	-	48	-	590	1 253	492
Passenger baggage ^{c/}	410	814	643	391	317	608	1 344

TABLE 2 (cont'd)

	1961	1962	1963	1964	1965	1966	1967
(1) TOTAL	132 934	118 122	109 927	117 973	100 497	111 365	81 594
(2) Total excluding all food and non-alcoholic beverages	59 320	40 694	29 505	30 488	20 673	22 965	25 157
(3) Total excluding rice, fish, malt, onions, chillies and spices	91 366	75 926	66 914	68 064	49 387	59 437	41 523
In thousand dollars: (1)	27 916	24 806	23 085	24 774	21 104	23 387	17 135
(2)	12 457	8 546	6 196	6 402	4 341	4 676	5 283
(3)	19 187	15 944	14 052	14 293	10 371	12 482	8 720

Source: Ceylon Customs Returns, 1961-67. Food Commissioner's data supplied by the Ministry of Planning and Economic Affairs.

- a/ The figure shown as non-eligible represents 20 per cent of the total value of the item in each year.
b/ The figure shown as non-eligible represents 10 per cent of the total value of the item in each year.
c/ The figure shown as non-eligible represents 50 per cent of the total value of the item in each year.
d/ The figure shown as non-eligible represents 80 per cent of the total value of the item in each year.

11. The preliminary results showing the value of non-eligible imports of consumer goods are summarized in Table 2. Table 2 also gives two additional totals which show the imports which result, first, if food and non-alcoholic beverages were excluded entirely from non-eligible imports, and, secondly, if rice, fish, malt, onions, chillies and spices were excluded entirely from non-eligible imports. It can be seen that food accounted for roughly 70 per cent of the value of all non-eligible consumer goods during the period 1961-67.

12. The estimation of non-eligible imports for the purposes of the present paper is not intended as implying any judgement regarding the import policies pursued: many additional factors would have to be taken into account in reaching such a judgement. Nevertheless, the figures throw some light on the course of Ceylon's import policy in general. Non-eligible imports of consumer goods declined from \$28 million in 1961 to \$17 million in 1967. This reflects the introduction of systematic foreign exchange budgeting and an attempt progressively to eliminate non-essentials from the import programme.

Possible use of supplementary finance

13. Table 3 summarizes the amounts of supplementary finance which Ceylon might have received on the basis of the above information for each year of the period 1961-67. It is assumed that, wherever applicable, use would have been made of the Fund's compensatory facility. It is also assumed that non-eligible imports would not have been financed. The amounts of gross shortfalls requiring finance were therefore reduced by the possible use of the Fund's compensatory facility and by the value of non-eligible imports. It is not assumed that there was additional scope for the use of reserves or for the use of suppliers' credits. On the basis of the projections for exports made in 1958 (estimate A), Ceylon might have received a total of \$53 million to cover export shortfalls in the years 1966 and 1967. On the basis of the projections made in 1961 (estimate B), Ceylon would have received a total of \$161 million, covering shortfalls in each year of the period 1963-67.

TABLE 3

Possible need for supplementary finance, 1961-67
(million US\$)

	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
(1) Shortfall from projected exports							
Estimate A	12	-	19	2	-	52	78
Estimate B	31	25	49	33	30	87	112
(2) Hypothetical use of IMF compensatory finance	6	-	4	-	-	20	17
(3) Hypothetical, additional use of reserves	-	-	-	-	-	-	-
(4) Adjustment for Non-eligible imports ^{a/}							
Estimate A	6	-	15	2	-	23	17
Estimate B	25	25	23	25	21	23	17
(5) Amount of supplementary finance needed ^{b/}							
Estimate A	-	-	-	-	-	9	44
Estimate B	-	-	22	8	9	44	78

^{a/} These figures differ from the figures for non-eligible imports shown in Tables 1 and 2 insofar as they include only those non-eligible imports for which adjustment was made.

^{b/} The amount of supplementary finance needed is arrived at by deducting the adjustment for non-eligible imports, the hypothetical additional use of reserves and the hypothetical use of IMF compensatory finance from the shortfall from projected exports.

14. The percentage of gross export shortfalls which would have been financed by the use of supplementary finance under the above assumptions is shown in Table 4. Over the period 1961-67, supplementary finance would have covered 33 per cent and 44 per cent of export shortfalls for estimates A and B respectively. In the year 1967, for both cases, it would have covered more than 50 per cent of shortfalls in export earnings.

TABLE 4

Supplementary finance as percentage of
export shortfalls, 1961-67
(per cent)

	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1960-67</u>
Estimate A	-	-	-	-	-	17	56	33
Estimate B	-	-	45	24	30	51	70	44



United Nations Conference on Trade and Development

Distr.
GENERAL

TD/B/C.3/AC.3/28/Add.2
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Original: ENGLISH

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GE.69-10206

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Details and percentages in tables do not necessarily add to totals, because of rounding.

Introduction

1. The main objective of this study is to determine, under certain assumptions, the amount of supplementary finance which might have been available to Colombia during 1962-67, had a scheme for supplementary financing been in operation during those years. In approaching the problem of how a supplementary financing scheme would have functioned in the case of Colombia, it was first necessary to obtain estimates of reasonable export expectations in the form of export projections for the period 1962-67. Shortfalls of export earnings from these projections were the basis for calculating the amount of supplementary finance, taking into account possible adjustments in imports, and the use of reserves and the IMF Compensatory Financing Facility. In the following paragraphs, the method used in deriving the estimates of the possible disbursements of supplementary finance is described; the data underlying these estimates are found in Table 1.

Exports

2. Reasonable export expectations were defined for the purposes of this study as projections originally made in 1962 by international agencies, taking into account the Ten Year Plan of Colombia,^{1/} and revised by the agencies in 1964. The series shown in Table 1, line (1) is thus a composite one. Line (3) of Table 1 shows the deviations of actual exports from the projections used in the study. An export shortfall was experienced in the years 1962, 1963, 1965, 1966 and 1967. An overage occurred in 1964. The total shortfall over the period amounted to \$315 million; the single overage amounted to \$53 million.

Use of IMF

3. Colombia made consistent use of the normal facilities of the Fund during the 1960's and received \$19 million in compensatory finance in 1967 in connexion with an export shortfall attributed to the 12-month period, 1 February 1966 to 31 January 1967. Line (4(a)) of Table 1 indicates that during 1962-67 the Compensatory Financing Facility could have provided a total of \$25 million to Colombia during 1962-67, basing potential

^{1/} Colombia, Plan general de desarrollo económico y social, 1962.

TABLE 1

Basic data underlying estimates of hypothetical
use of supplementary finance, 1960-67

(million US\$)

	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
<u>Exports (f.o.b.)^{a/}</u>								
(1) Projections	...	...	523	555	570	600	611	623
(2) Actual exports	500	463	463	474	623	580	525	555
(3) Deviations from projected exports: (2) - (1)	...	...	-60	-81	+53	-20	-86	-68
<u>Use of IMF</u>								
(4) Compensatory finance								
(a) Hypothetical compensatory drawing	1	19	-	2	-	-	16	7
(b) Actual compensatory drawing ^{c/}	...	...	...	-	-	-	-	19
(5) Actual gold and credit tranche drawings outstanding	-	65	72	121	108	84	89	104

	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
<u>Reserves</u>								
(6) Gold, reserve positions in IMF and foreign exchange	178	140	85	87	104	96	77	83
(7) Annual change in (6) b/	+37	+38	+55	-2	-17	+8	+19	-6
(8) Change in net international reserves b/	...	+80	+43	+31	+15	-69	+42	-59
<u>Imports (c.i.f.)</u>								
(9) Actual imports	519	557	540	506	586	454	674	497
(10) Imports ineligible for supplementary finance	...	...	47	44	40	38	57	51
(a) As a percentage of actual imports	...	...	9%	9%	7%	8%	8%	10%

Source: UNCTAD secretariat, based on material supplied by international agencies and national sources, and IMF, International Financial Statistics, various issues.

a/ Including registered and non-registered exports of all commodities, including crude and fuel oil.

b/ (-) = increase.

c/ The formula used in calculating the amounts of the hypothetical compensatory drawings in each year attaches a weight of 0.50 to export of the year for which the shortfall is being estimated, 0.25 to the preceding year, and 0.25 to the second preceding year.

compensable shortfalls upon the IMF norm, that is, a medium-term export trend calculated by means of the IMF formula for estimation of a five-year moving average (50 per cent weight given to the current year, and 25 per cent to each of the two previous years).^{1/}

Reserves

4. Colombia's gold and foreign exchange reserves were at very low levels during the 1960's, amounting to less than three months' imports during the entire period. In addition, the net international reserve position was particularly adverse. It has therefore been assumed for the purposes of this paper that no use of reserves, either "owned reserves" or the "second line" of reserves, would have been made prior to the receipt of supplementary finance.

Imports

5. Total Colombian imports show no clear trend over the period 1960-67. They were subject to restraints and substantial liberalization of imports occurred only once during the period, in 1966. Imports averaged about \$540 million per year during the 1960's, showing almost no change over the entire period: average annual imports were \$539 million during 1960-62, and \$542 million during 1965-67. Colombia's imports have thus been a declining percentage of GDP during most of the 1960's and have been maintained at levels well below the peaks reached during the mid 1950's: the average level of imports during the years 1954-56 was \$666 million. Their composition has become heavily weighted in favour of intermediate goods, raw materials and capital goods: imports of consumer goods amounted to about 11 per cent of the total in 1961, but had declined to under 6 per cent by 1968. Colombia's manufacturing sector is heavily dependent on imported inputs and any cutback in such imports has had an adverse effect upon domestic production and employment. Sharp cutbacks in imports were undertaken in 1963, 1965 and 1967, but in each case large increases in imports financed by reserve use, short-term private capital and official borrowing as well as by increases in export proceeds occurred in the following year, reflecting in large part the difficulty of holding imports down at a level inadequate to meet domestic industrial demand.

^{1/} At present IMF relies upon forecasts of exports based upon analysis of the commodities in question more than upon rigid application of the formula. In the present exercise, however, only the formula has been applied due to the difficulties of estimating the impact upon compensable shortfalls of utilizing the forecast method. This procedure may have resulted in some understatement of the compensatory finance available to Colombia during the period.

6. In determining the estimate of hypothetical supplementary finance the main item which was set against any given year's gross shortfall was an estimate of imports which would not have been eligible for supplementary finance. Formulation of such an estimate was based upon an item-by-item examination of Colombian imports for the period 1962-67, undertaken by the secretariat in consultation with Colombian authorities. Three basic criteria for designating an item as non-eligible emerged from this analysis: (1) the degree of essentiality of the item, as industrial input, or component of investment in productive capacity, or as a necessary element of consumption, e.g., wheat; (2) whether or not the item would qualify as part of a request for finance directed to an international agency; (3) whether importers of the item in question traditionally have had access to other sources of finance which would render unnecessary a request for official finance. Thus, a given item could be an essential input for a sector of Colombian industry; but it might not make a sufficient contribution, if any, to exports and the external debt-servicing capacity of the country; or, importers of the good might have sufficient channels of credit already established; or, the import of the good might be governed by a bilateral agreement, involving no foreign exchange cost to Colombia. In any of these cases the item could be designated as ineligible for supplementary finance. The estimates of non-eligible imports (Table 1, line (10)) are based upon the application of the above criteria to individual items imported by Colombia during 1962-67.^{1/}

7. Imports not eligible for supplementary finance amounted to \$46 million annually on average during the period 1962-67. These items amounted to about 9 per cent of total imports during the same period.

Supplementary finance

8. Possible annual receipt of supplementary finance by Colombia was estimated by setting the annual sum of non-eligible imports and possible use of the IMF compensatory financing facility against the gross shortfall. This process is summarized in Table 2 where line (4) shows the amounts of possible supplementary finance that resulted from subtracting non-eligible imports and possible finance from the IMF Facility from the shortfalls of export earnings from reasonable expectations. In the case of 1965 the non-eligible imports were greater than the shortfall and it might be presumed that no

^{1/} The list was based upon a four and five-digit breakdown of the Standard International Trade Classification, Revised, (United Nations publication, Sales No.: 61.XVII.6).

supplementary finance would have been forthcoming in such a case. However, imports in 1965 were at the lowest level recorded during the entire period 1960-67, about 16 per cent below average. Following the severe limitation of imports in 1965, imports in 1966 reached their highest point of the 1960's only to fall back to a figure about 8 per cent below average in 1967. For these reasons, in estimating the amount of supplementary finance needed by Colombia in 1965, no adjustment has been made for ineligible imports. Had supplementary finance been available during 1965-67 some of the fluctuations in imports during these three years might have been avoided.

9. Total supplementary finance during the period 1962-67 for which Colombia would have been eligible on the above assumptions is estimated at \$91 million, about 29 per cent of the total gross shortfall during the period. As a percentage of annual export shortfalls possible supplementary finance would have ranged from 15 per cent (1966 and 1967) to 100 per cent (1965). See Table 2, lines (4) and (4(a)).

TABLE 2

Determination of hypothetical use of supplementary
finance, 1962-67

	(million US \$)						Total
	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1962-67</u>
(1) Gross export shortfall	60	81	-	20	86	68	315
(2) Hypothetical use of IMF compensatory finance	-	2	-	-	16	7	25
(3) Hypothetical use of reserves	-	-	-	-	-	-	-
(4) Adjustment for imports not considered eligible for supplementary finance	47	44	-	<u>a/</u>	57	51	199
(5) Amount of supplementary finance needed <u>b/</u>	13	35	-	20	13	10	91
(6) Supplementary finance as per cent of gross export shortfall	22%	43%	-	100%	15%	15%	29%

Source: Table 1.

a/ No allowance has been made for ineligible imports for the reasons indicated in paragraph 8.

b/ Arrived at by deducting from the gross export shortfall: hypothetical use of IMF compensatory financing facility, the hypothetical use of reserves and adjustment for imports considered not eligible for supplementary finance.



Distr.
GENERAL

TD/B/C.3/AC.3/27
22 April 1969

ORIGINAL: ENGLISH

United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD
Committee on Invisibles and Financing
related to Trade
Inter-governmental Group on Supplementary Financing
Fifth session
New York, 23 June 1969

Supplementary Financial Measures: An Analysis of Scheme A in
Chapter IV of the Report of the Inter-governmental Group on
Supplementary Financing on its Third Session

Study by the UNCTAD secretariat

GE.69-8980

EXPLANATORY NOTES

The following symbols have been used in the tables throughout this document:

Three dots (...) indicate that data are not available or are not separately reported; a dash (-) indicates that the amount is nil or negligible. Use of a hyphen (-) between years, e.g. 1963-65, signifies the full period involved, including the beginning and end years.

Details and percentages in tables do not necessarily add to totals, because of rounding.

The following abbreviations have been used in the text and tables:

IBRD	International Bank for Reconstruction and Development (World Bank)
IDA	International Development Association
IMF	International Monetary Fund

SECTION A. INTRODUCTION

1. At the second session of the Inter-governmental Group on Supplementary Financing, the representative of the Federal Republic of Germany submitted to the Group a note setting out his delegation's doubts with regard to some of the salient aspects of the scheme proposed by the IBRD staff and also outlining the major features of an alternative scheme which, in their view, had the advantage of "being realistic and feasible".^{1/} Some of the ideas contained in the above note were further developed in Chapter IV, section A, of the report of the Inter-governmental Group on its third session.^{2/}
2. At its fourth session, the Inter-governmental Group requested the UNCTAD secretariat to undertake a further analysis of scheme A in Chapter IV of the report of the Group on its third session^{3/}, and possible variants thereof, so as to enable the Group to address itself at its next session 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.
- 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."^{4/}

The Group also expressed the desire that shortfalls in exports estimated according to the guide-lines laid down in scheme A should be compared with shortfalls computed by the IMF for purposes of its compensatory financing facility. Accordingly, the following section is devoted to an analysis of the above-mentioned issues raised by scheme A. The final section considers the implications of certain suggestions for the modification of scheme A contained in a statement made by the representative of the United States of America at the fourth session of the Inter-governmental Group on Supplementary Financing.

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- ^{1/} Inter-governmental Group on Supplementary Financing: Report on its second session, TD/B/C.3/44 (TD/B/C.3/AC.3/17), Annex B, pp. 2-8.
 - ^{2/} TD/33/Rev.1, Chapter IV, paragraphs 105-106 (United Nations Publication: Sales Number: E.68.II.D.3)
 - ^{3/} This scheme will be hereafter referred to as scheme A.
 - ^{4/} Chairman's report on the fourth session of the Inter-governmental Group on Supplementary Financing, TD/B/200 (TD/B/C.3/53), Annex I, p.3.

SECTION B: ANALYSIS OF ISSUES RAISED BY SCHEME A

I. The nature of guidelines 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

3. A preliminary outline of scheme A as presented originally to the second session of the Inter-governmental Group on Supplementary Financing did not indicate how the magnitude of a shortfall from reasonable expectations was to be determined. It was merely stated that "if, at some point of time, the country suffers a serious shortfall in its export proceeds it will approach the Joint Committee, of which the Agency and the IMF are members, and will present its case".^{5/} However, at the third session of the Inter-governmental Group, the representative of the Federal Republic of Germany proposed that a determination as to whether the decline in export proceeds was a shortfall from reasonable expectations should be made by the agency ex post on the basis of certain established guidelines. In this connexion, it was suggested that "in its decision, the Agency might compare, for example, the actual export receipts with the average of the export receipts of the two preceding years" and that "the difference between the two figures might be defined as a shortfall from reasonable expectations and might be the starting basis for the Agency to determine the amount and terms of assistance".^{6/} Thus if exports in a particular year were lower than the average value of exports during the two preceding years, a prima facie case for assistance would arise.
4. The particular method for the identification of export shortfalls under scheme A referred to in the preceding paragraph was not intended to be an integral part of the scheme. It was mentioned only as an instance of the type of criteria that the Agency administering the scheme might adopt so as to establish a prima facie case for assistance and presumably the said Agency would be free to devise any other method considered suitable for the calculation of export shortfalls. The possibility that the scheme might operate without any predetermined formula, relying instead on ad hoc decisions, was also not ruled out. However, since in the absence of information regarding the method for the identification of export shortfalls, it is not possible

^{5/} TD/B/C.3/44 (TD/B/C.3/AC.3/17), Annex B, p. 7.

^{6/} TD/33/Rev.1, paragraph 105.

either to compare shortfalls yielded by scheme A to those identified by the International Monetary Fund for purposes of its compensatory financing facility or to estimate the likely cost of the scheme, the following discussion assumes that export shortfalls under scheme A would be identified with reference to the average value of exports during the two years preceding the year of the shortfall. In view of the fact that this particular formula was not intended to be an integral part of scheme A, the resulting estimates of the magnitude of export shortfalls or of the likely cost of the scheme can give only a rough impression of the magnitudes involved.

5. The method proposed for the calculation of export shortfalls in scheme A differs from that proposed in the World Bank staff scheme in that it does not involve the use of export projections. According to the representative of the Federal Republic of Germany, "while it is certainly appropriate to use export forecasts as guide-lines for development planning - forecasts which, of course, require continuous adjustment as circumstances change - it is not possible to make them the basis of valid financial claims and commitments".^{7/}

6. There are circumstances in which the method proposed for scheme A would indicate an export shortfall while the World Bank staff formula would not; and there are also cases in which the opposite would occur:

(a) A decline in exports from the average of two preceding years invariably results in a shortfall under scheme A's formula; it does not result in a shortfall under the World Bank staff formula if such a shortfall is foreseen.

(b) Constant or increasing exports cannot give rise to a shortfall under scheme A's formula; they can give rise to a shortfall under the World Bank staff formula if projected exports were higher than actual exports.

7. The objective of the compensatory financing facility of the IMF is to smooth out fluctuations around the medium term trend value of exports. The Fund defines the medium term trend for any particular year as the average value of exports over a five year period, starting two years before the year of the shortfall and ending two years after it. An export shortfall arises if the actual value of exports during a year is less than the medium term value of exports for that year.

8. In order to obtain a practical approximation to the medium term trend value of exports, the Fund uses two different methods. The first method estimates the trend value of exports for the current year on the basis of actual export performance of the

^{7/} TD/B/C.3/44, Annex B, paragraph 8(a).

country concerned during the current and the two preceding years. For this purpose, the exports of the two preceding years have a weight of 25 per cent each while the weight attached to the current year's exports is 50 per cent.^{8/} The Fund arrived at these weights on the basis of statistical analysis of the past experience of forty-eight countries. The Fund states that "while not absolutely the best of the formulae tested, it was chosen as a good formula with rounded weights close to the optimal formula".^{9/}

9. The second method involves a forecast of exports for the two years following the year of the shortfall, thereby making it possible to calculate an average of five years centred on the shortfall year. The export forecast for the two succeeding years is established "largely on the basis of commodity analysis, taking into account the prospective price movements for the commodity in question and the prospective volume movements in the country in question".^{10/} However, in order to give members some assurance that the estimates of the trend value of exports will remain within a certain predictable range, "the average level of exports predicted for the two years following the shortfall year will not be assumed to exceed by more than 10 per cent the average level experienced in the two years preceding the shortfall year and will not be assumed to be less than the level of exports experienced in the shortfall year itself".^{11/}

10. The Fund states that neither of the two methods can by itself provide a satisfactory approximation to the ideal norm or the trend.^{12/} Since, however, the second method has been found to give better results than the first, it is given greater weight in the final estimate of the medium term trend value.^{13/}

11. Because of the 50 per cent weight attached to exports of the current year in estimation of the medium-term trend in Method I of the Fund, the shortfall (surplus) yielded by it will be smaller than the one yielded by the method proposed for scheme A

^{8/} This will be referred to hereafter as Method I.

^{9/} IMF, Compensatory financing of export fluctuations, a second report by the International Monetary Fund, 1966, p.7.

^{10/} Ibid., p. 7.

^{11/} Ibid., p. 8.

^{12/} "Any formula admittedly gives a precise answer; but no formula can be devised that gives a good approximation of the medium-term trend, as here defined, solely on the basis of past statistical data. On the other hand, any forecasting exercise must to some extent be subjective and uncertain." Ibid., p. 6.

^{13/} Ibid., p. 8.

which assigns no weight to the current year's exports in the estimation of the export norm. Indeed, it follows from the very nature of the two formulae that the shortfall (surplus) yielded by Method I of the Fund will be exactly half the shortfall (surplus) given by scheme A's formula.^{14/} The shortfalls yielded by Method I of the Fund, however, do not bear any systematic relationship to those identified by the formula proposed by the World Bank staff.

12. An analysis of data for sixty-two developing countries, accounting for about 85 per cent of total export earnings of all developing countries, shows that during the period 1954-65 export shortfalls identified by the method proposed for scheme A averaged \$475.3 million per annum.^{15/} The corresponding estimate of shortfalls yielded by Method I of the Fund is \$237.6 million per annum.

13. As regards the second method (Method II) used by the Fund for the calculation of export shortfalls (i.e. one involving a forecast of export values for the two years succeeding the shortfall year)^{16/} one cannot know in advance if the value of the shortfall will be greater or smaller than the one yielded by the method proposed for scheme A. Much depends on the projected value of exports for the two years following the year of the shortfall. If the expectation is that exports will decline further in these two years or remain constant at the level achieved in the shortfall year, the shortfall under the formula proposed for scheme A will tend to exceed the shortfall

^{14/} Let \bar{x} be the medium term trend value of exports as yielded by Method I of the Fund. Thus

$$\bar{x}_t = 1/4 (x_{t-2} + x_{t-1}) + 1/2 x_t \quad \text{where } x_t \text{ is the value of exports in the current year and } x_{t-1} \text{ and } x_{t-2} \text{ are values of exports during one and two preceding years respectively.}$$

The export shortfall as yielded by Method I of the Fund is:

$$\begin{aligned} \bar{x}_t - x_t &= 1/4 (x_{t-2} + x_{t-1}) - 1/2 x_t \\ &= 1/2 [1/2(x_{t-2} + x_{t-1}) - x_t] \\ &= \text{one-half the value of shortfall yielded by scheme A's formula.} \end{aligned}$$

^{15/} See Annex table 1 for details.

^{16/} See paragraph 9 above.

yielded by Method II of the IMF. If, however, a strong recovery of exports is expected, the shortfall yielded by Method II may exceed the one given by the application of the formula proposed for scheme A.

14. In the absence of data on IMF forecasts of exports, historical data do not enable us to form an idea of the relationship of the shortfalls yielded by the illustrative method proposed for scheme A to those given by Method II of the IMF for the purposes of its compensatory financing facility. However, in order to compare the average magnitudes of shortfalls yielded by Method II and scheme A's method over the period 1954-65, we have made the assumption that the IMF export projections were without error during this period; i.e. that they coincided with the values of exports actually realized. Calculations made on this basis for the sixty-two developing countries referred to earlier have shown that export shortfalls yielded by IMF Method II averaged \$613.4 million a year during 1954-65, whereas the corresponding estimate for scheme A's method is \$475.3 million.

II. The considerations to be taken into account in arriving at a decision on the amount and terms of assistance

15. The amount of assistance under scheme A would not necessarily be equal to the amount of the shortfall as defined in the preceding section. Both the amount and the terms of assistance would depend on certain additional considerations, in particular, the following:

- "The causes and seriousness of the shortfall;
- The degree of possible disruption of the development programme;
- The prospective development of exports in the current and following years;
- The applicant's economic performance in general;
- The financial resources available to the Agency."^{17/}

These points will be elaborated in the following paragraphs.

16. Under scheme A, an evaluation of the causes and seriousness of a shortfall will be made at the time the shortfall occurs and the country concerned approaches the Agency administering the scheme for assistance. The question arises: what criteria would be used to arrive at a judgement regarding the causes of the shortfall and what expectation would there be as to the time required to reach this judgement? The scheme does not specify in detail the criteria for evaluation. However, it is stated that "a country wishing to avail itself of the Scheme would undertake to consult fairly regularly with the Agency about its development and economic policy"^{18/} and it is expected that this would result in the evolution of a reasonably fast procedure for the examination of a request for assistance. It is also stated that these consultations could be largely based on those already conducted by the World Bank group.

17. Under the Bank staff scheme, a country would reach an advance policy understanding with the Agency administering the scheme and through periodic consultations the Agency would determine whether or not a country was adhering to the terms of the agreed policy understanding. The Bank staff scheme uses the concept of the initial policy understanding to ensure both that any assistance provided would be put to good use and that the evaluation of any request for assistance would be prompt and speedy.

^{17/} TD/33/Rev.1, paragraph 105.

^{18/} TD/B/C.3/44 (TD/B/C.3/AC.3/17), Annex B, p. 7. para. 11(a)

18. The representative of the Federal Republic of Germany regarded the concept of the policy understanding underlying the Bank staff scheme as being "sound and constructive" but had doubts about the feasibility of the type of policy understanding envisaged in the Bank staff scheme. The representative considered that "to conclude agreements of the scope envisaged in the study with perhaps fifty to seventy developing countries in any meaningful way would necessitate a tremendous amount of work and, therefore, require a gigantic administrative machinery. In addition, it has to be considered by developing countries whether they would be prepared to bind themselves with regard to their economic and development policy to such a degree and for such a long period unless they were assured that supplementary financing would cover the whole or almost the whole of a possible shortfall. However, whether that assurance can be given must appear doubtful".^{19/} For this reason, scheme A does not envisage firm policy commitments on the part of a developing country, agreed to in advance. However, it is considered that the absence of firm initial commitments need not imply either use of non-objective criteria or excessive delay in evaluating a request for assistance. Through regular periodic consultations, the Agency would have advance knowledge of the policies of the country concerned and the country would also know a good deal about the type of considerations that the Agency would bear in mind in evaluating its aid request.

19. Once it had been established that the shortfall was due to factors beyond the control of the country concerned, there would be consultation with the IMF as to the amount of assistance likely to become available under its compensatory financing facility. In the note submitted by the representative of the Federal Republic of Germany to the second session of the Group, it is stated that "if the Joint Committee determines that there is an export shortfall of short duration and that the presuppositions of compensatory financing are met it will then normally refer the application to the IMF for compensatory financing. However, if the Joint Committee comes to the conclusion that the shortfall is definitely of a long-term nature (e.g. destruction of plantations by natural disaster, or significant change of the market situation due to the appearance of substitutes) it would refer the application to the Agency for supplementary financing".^{20/}

^{19/} TD/B/C.3/44 (TD/B/C.3/AC.3/17); Annex B, p. 5 para. 8(b)

^{20/} TD/B/C.3/44 (TD/B/C.3/AC.3/17), Annex B, p. 7. para. 11(d)

20. This means that the Agency would have to decide whether a shortfall was of a short-term or of a long-term character. In that case certain complexities might arise. For example a long-term shortfall might not always be identified as such under the method proposed for scheme A. To take an example, let it be supposed that the exports of a country amounted to \$150 million both in 1960 and 1961 and that because of a significant change in market conditions in 1962 which lasted several years they fell to \$100 million in 1962 and remained constant at that level for the next five years. Then, if the prima facie case for assistance were established on the basis of the average value of exports during the two years preceding the year of shortfall, such a case would arise in 1962 and 1963, but not in 1964, 1965, 1966 or 1967. A country would be eligible for continuing assistance in connexion with such a long-term shortfall only if its exports continued to decline throughout the period of shortfall.

21. However, as noted earlier, the particular method for the identification of export shortfalls outlined in paragraph 3 was not intended to be an integral part of scheme A. Indeed, scheme A allows considerable discretion in estimating the amount of shortfalls. Thus the note submitted by the representative of the Federal Republic of Germany to the second session of the Inter-governmental Group on Supplementary Financing stated that "supplementary financing could also be provided if, after drawing on the Fund's Compensatory Financing Facility, it were to turn out that the shortfall was not of a short-term nature. This would be the case if e.g. also in the years following a drawing export receipts remain below expectations and if, as a consequence thereof, the danger of an interruption of the development process persists".^{21/}

22. The note stipulated further that supplementary financing could also be used to enable a country to make repurchase in respect of drawings under the Fund's compensatory financing facility if "at the time of the repurchase falling due, the country were unable to effect repayment or could only do so by sacrificing investments important to development as a result of a persistent shortfall in export proceeds beyond the country's control".^{22/23/}

^{21/} TD/B/C.3/44 (TD/B/C.3/AC.3/17) Annex B, p. 8. para. 11(e)

^{22/} Ibid.

^{23/} Some estimates of the cost of refinancing obligations in respect of drawings under the Fund's compensatory financing facility are given in paragraph 33 below.

23. After determining the amount of assistance forthcoming under the compensatory financing facility of the Fund and the characteristics of the residual shortfall, the agency would need to consider the seriousness of the shortfall. This implies a judgement regarding the extent to which the shortfall is disruptive of development. This in turn would necessitate an assessment of the scope for domestic adjustments, i.e., the extent to which a shortfall could be absorbed by a cut in non-essential imports. The Bank staff scheme also envisages that before financing a shortfall, consideration would be given to all feasible domestic adjustments. Since the scope and character of possible adjustments cannot be meaningfully laid down in the initial policy understanding and would normally have to be decided at the time of the shortfall, on this point there appears to be no substantial difference between the Bank staff scheme and scheme A.

24. Scheme A will operate on the basis of a fixed sum of money made available to the Agency administering the scheme. It is apparently envisaged that the criteria to be used for judging the seriousness of a shortfall under scheme A would also depend on the amount of resources available. If abundant resources were available a shortfall of a relatively mild character could be considered for financing; if, however, resources were limited, only the most serious cases would qualify for consideration.^{24/}

25. Under scheme A the terms of assistance would be "flexible and correspond to the stage of development of the country concerned as well as to its particular situation".^{25/} Thus they would, among other things, depend on the prospective development of exports as well as on the debt service burden of a country. And where economic conditions so require the assistance would be provided on concessional terms. The provisions of scheme A regarding the terms of assistance would thus seem to be in line with the corresponding provisions of the Bank staff scheme. The Bank staff scheme assumes that the terms of assistance would be the same as those applicable to the basic finance provided to the country concerned and where there was need for concessional terms for basic finance these would also be applicable to supplementary finance.

26. As regards the form of assistance, under scheme A, supplementary financing would, normally, "be extended in a form not tied to particular projects".^{26/} However, "if the agency were to determine that, e.g. for purposes of diversification or for earning foreign exchange, it is essential and urgent to promote specific projects it could tie its assistance to such projects and thereby assure maximum effectiveness".^{27/} These suggestions are essentially in line with the corresponding provisions of the Bank staff scheme.

^{24/} The World Bank staff scheme was also intended to operate on the basis of a fixed amount of financial resources. It was envisaged that should the agency be faced with a potential shortage of funds, this contingency would be taken care of by devising an equitable method of rationing so as to match the total claims and available resources.

^{25/} TD/B/C.3/44 (TD/B/C.3/AC.3/17), Annex B, p. 8 para. 11(f)

^{26/} Ibid.

^{27/} Ibid.

III. What initial amount of resources would be needed to operate an adequate scheme?

27. The first step in estimating the cost of scheme A requires a calculation of export shortfalls. As noted earlier, the average annual value of shortfalls for a group of ~~sixty-two~~ developing countries, accounting for about 85 per cent of total exports of all developing countries, was \$475.3 million for the period 1954-65.

28. The next step involves calculation of the amount of assistance that would have been forthcoming under the Fund's compensatory financing facility as an offset to shortfalls yielded by the particular method suggested for scheme A. ~~Since~~ the years of shortfall under the Fund's compensatory facility and under scheme A need not always coincide, the assistance available under the compensatory financing facility would provide such an offset only if the years of shortfall under the two schemes happened to be the same. Under the procedure adopted here, it has been assumed that if during a particular year a shortfall appears under both the schemes, no assistance would be required from the Agency administering the scheme of supplementary financing if the assistance available under the Fund's compensatory financing facility equalled or exceeded the export shortfall indicated by the method proposed for scheme A. A number of other assumptions should also be noted. Thus it has been assumed that both the Fund scheme and the scheme for supplementary financing would have been in operation since 1954. Another assumption is that all the countries experiencing export shortfalls from the medium term trend value of exports would have approached the Fund for assistance under its compensatory financing facility, and would have received assistance within the prescribed limits on yearly drawings as well as on total drawings outstanding. It is further assumed that a compensatory drawing is to be repurchased within a period of five years and that 50 per cent of any export excesses (i.e. excess of actual exports over the medium term trend value of exports for that year) during each of the four years following a drawing is used for repurchase of outstanding drawings.

29. As noted previously, the Fund uses two different methods for calculating the medium term trend value of exports. Calculations by the secretariat of the shortfalls have been made along the lines of these two methods as described in paragraphs 8 and 14 above.

30. If we assume that compensatory drawings in any given year could not have exceeded 25 per cent of a country's quota in the Fund and that the total amount of outstanding compensatory drawings could not have exceeded 50 per cent of a country's quota, the

two methods referred to in the last paragraph yield two estimates of the amount of the amount of assistance under the Fund's compensatory financing facility during the period studied. Thus the average annual value of assistance during 1954-65 as given by Method I would have been \$100.4 million; the corresponding estimate for Method II is \$109.1 million.^{28/}

31. The residual amount of shortfall that would have been left to be financed by the agency administering the scheme for supplementary financing would have averaged \$374.9 million a year during 1954-65 under Method I and \$366.2 million a year under Method II.

32. If we were to assume further that up to 50 per cent of quota would have been available for drawing in any single year, the two estimates of the average annual value of residual shortfalls for the period 1954-65 come to \$362.6 million and \$336.7 million under Methods I and II respectively.^{29/}

33. As noted earlier, scheme A envisages that there would be provision in the scheme for refinancing drawings under the Fund's compensatory financing facility, should repurchases to be made threaten a disruption of the development programme. The relevant decisions in this matter would be made on a case by case examination of a country's economic circumstances, and the exact cost of such refinancing cannot therefore be assessed. However, certain cases of obvious difficulty can be readily identified. Under the current rules of the compensatory financing facility, a country is normally expected to use 50 per cent of any export excesses (i.e. excess of actual

^{28/} It should be noted that this does not represent the average annual value of total assistance available under the Fund's compensatory financing facility. It only represents the average value of assistance which is available as an offset to export shortfalls yielded by the formula proposed for scheme A. As pointed out earlier, using Method II for the calculation of shortfalls for purposes of the Fund's compensatory financing facility the years of shortfall under the two schemes need not always coincide and normally, therefore, the total assistance available under the Fund facility would have been greater than that suggested by the above figure.

^{29/} The estimates of assistance available under the Fund's compensatory financing facility during 1954-65 (and which can be offset against shortfalls yielded by the formula proposed for scheme A) are derived on the basis of actual Fund quotas of the countries concerned as on 31 December of the year of the shortfall. However, if the amount of assistance under the Fund scheme were to be calculated on the basis of Fund quotas as on 31 December 1967, the two estimates of the average annual value of the residual shortfalls (assuming that compensatory drawings in a year cannot exceed 25 per cent of the quota) for the period 1954-65 would be \$315.1 million and \$301.8 million under Methods I and II respectively. If 50 per cent of quota were available for drawing in any single year, the corresponding estimates of the residual shortfalls on the basis of 1967 Fund quotas would average \$304.9 million and \$272.3 million a year respectively.

exports over the medium term trend value of exports for any particular year following the shortfall year) in each of the four years following the year in respect of which a compensatory drawing is made towards repurchase of such drawings; any outstanding balance must be repurchased by the end of the fifth year from the date of the drawing. Thus if there are inadequate export excesses in respect of the four years following the shortfall year, repurchases will have to be completed in the fifth year. Under the rule that drawings must not remain outstanding beyond an outside period of three to five years from the date of the drawing, which applies to all drawings including those under the compensatory financing facility, the country must consult the Fund at the end of the third year from the drawing and agree with it on a schedule for repurchase in the fourth and fifth years. In view of the above, if the fourth or the fifth year following the shortfall year is itself a year of shortfall or that the export excess during that year is smaller than the amount of the repurchase falling due, there may be some danger that the repurchase may cause disruption of development.^{30/} On this basis, it is possible to calculate the amount of refinancing obligations that might have become necessary during the period 1954-65.^{31/} Since the estimated amount of

^{30/} Of course, if the repurchase obligation falls due in a year which happens to be a year of shortfall under the compensatory financing facility, there will be scope for refinancing in the Fund itself in so far as the making of the repurchase will enable the country to make another compensatory drawing to the extent that it otherwise qualifies for such a drawing. However, no net assistance would have been provided to offset the effects of export shortfalls.

^{31/} These calculations assume that as in the first three years following the shortfall year, 50 per cent of the export excess, if any, during the fourth year would be utilized for repurchase of outstanding compensatory drawings and that no repurchase would be required in that year if there were no export excess or if it happened to be a shortfall year. In actual practice, the Fund may recommend that a country use more than 50 per cent of the export excess during the fourth year for repurchase of outstanding drawings, particularly if repurchases during the preceding three years have been at a level considered inadequate. At times, the Fund may recommend that a country repurchase a part of outstanding compensatory drawings in the fourth year following the shortfall year even if there is no export excess during that year. For the fifth year following the shortfall year, we have assumed that the entire export excess, if any, is available for repurchase of outstanding compensatory drawings. In addition, these calculations, which relate to calendar years, are, of necessity, based on the assumption that the year of the shortfall and the year of the drawing coincide. In actual practice, the two need not coincide so that export excesses would be calculated with respect to the successive years following the shortfall year while the repurchases related to such excesses might be made at the end of each of the four years following the compensatory drawing.

assistance forthcoming under the Fund's compensatory facility depends on which of the two methods is used for the calculation of the medium term trend value of exports, the estimates of the refinancing obligations would also vary. The cost of the refinancing operation under Method I would have averaged \$9.1 million a year during 1954-65; the corresponding estimate for Method II is \$26.6 million. If we further assume that 50 per cent of quota could be drawn in any single year rather than 25 per cent, the two estimates of refinancing obligations would be \$17.1 million and \$28.2 million respectively.^{32/33/}

34. If the average annual cost of refinancing as estimated in the preceding paragraph were to be added to the residual shortfalls as given in paragraphs 31 and 32 above, we get an estimate of the average maximum total cost of a scheme for supplementary financing along the lines of scheme A. If the assistance available under the Fund's compensatory financing facility were calculated by Method I and if there were a limit of 25 per cent of quota on compensatory drawings in any single year and if the assistance had been estimated on the basis of actual quotas as on 31 December of the year of shortfall, the maximum total cost of the scheme would have averaged \$384.0 million a year during 1954-65 (see estimate A, Annex table 2). The corresponding estimate yielded by using Method II is \$392.8 million a year (see estimate C, Annex table 2). If we further assume that up to 50 per cent of quota could have been drawn in any single year, the two estimates would be \$379.7 million (estimate B, Annex table 2) and \$364.9 million (estimate D, Annex table 2) respectively.^{34/}

^{32/} If assistance available under the Fund's compensatory financing facility were based not on actual quotas during 1954-65 but on quotas as on 31 December 1967, and if there were a limit of 25 per cent of quota on yearly drawings, the two estimates of the average annual refinancing obligations would amount to 25.9 million dollars and 48.9 million dollars respectively. If the entire 50 per cent of quota could be drawn in any single year, the two corresponding estimates would be \$31.7 million and \$70.7 million respectively.

^{33/} It should be noted that refinancing obligations have been calculated in respect of all compensatory drawings during 1954-65 whether or not they were originally available as an offset against shortfalls yielded by the formula proposed for scheme A. Method II yields higher estimates of refinancing obligations than Method I because under Method II the amount of shortfalls and hence the amount of assistance available from the Fund's compensatory facility would have exceeded the shortfalls and the estimated assistance indicated by Method I.

^{34/} If the amount of assistance were to be calculated on the basis of Fund quotas as on 31 December 1967, and if we assume a limit of 25 per cent of quota drawable in any single year, the two estimates of maximum cost would have averaged \$341.0 million and \$350.7 million per year respectively. If up to 50 per cent of the quota could be drawn in a single year, the two corresponding estimates of maximum cost of the scheme would be \$336.6 million and \$343.0 million respectively (see Annex table 2).

35. The actual cost of the scheme would have been lower than the maximum cost estimated above depending on (i) the use of reserves of the country concerned to finance shortfalls and (ii) the extent to which export shortfalls could be absorbed by the country concerned by reducing its imports of non-essential items. The actual scope for the use of reserves and for domestic adjustments over the period 1954-65 for over sixty developing countries cannot be determined meaningfully without an exhaustive examination of developments in all of these countries over this period. However, as a general indication, it is worth mentioning that in calculating the cost of their scheme, the World Bank staff assumed that use of reserves and internal adjustments by developing countries would have each reduced the financial requirements of the scheme by \$75 million per annum.^{35/} If the above estimates of savings on account of reserve use and internal adjustments were accepted for purposes of scheme A, its cost during the period 1954-65 would have averaged approximately \$200-250 million per annum.

IV. The administrative arrangements

36. The note submitted by the representative of the Federal Republic of Germany to the second session of the Inter-governmental Group stated that the Agency administering the scheme of supplementary financing "should be one of the existing institutions with wide experience and authority, preferably IBRD/IDA".^{36/} The note also proposed that in order to ensure adequate co-ordination between the compensatory financing facility of the IMF and the supplementary financing scheme ("so that the latter truly 'supplements' the existing facilities in cases where this is required") there should be a body co-ordinating the two institutions, the IMF and the agency administering supplementary financing. In addition, the IBRD and IMF country studies and reports might conceivably be co-ordinated for the purposes of the scheme within the "Joint Committee".^{37/}

37. The Bank staff scheme does not specify the nature of the Agency that would administer the scheme for supplementary financing. However, it contemplates close co-ordination of the activities of the said Agency and those of the Fund and the Bank.

^{35/} TD/B/C.3/AC.3/Conf. Room Paper/23, 13 February 1967.

^{36/} TD/B/C.3/44 (TD/B/C.3/AC.3/17) Annex B, p. 7, para. 10(c).

^{37/} Ibid., Annex B, p. 6, para. 10(a).

SECTION C. SUGGESTIONS BY THE REPRESENTATIVE OF THE UNITED STATES OF AMERICA

38. At the fourth session of the Inter-governmental Group on Supplementary Financing, the representative of the United States put forward certain suggestions which he considered as being possible modifications of scheme A. These are spelled out below.

39. The representative of the United States expressed the view that the arrangements for supplementary financing, if put into effect, should be administered by IDA. He did not see any need for a Joint Committee of the Fund and the Agency to co-ordinate the operations of these arrangements and the compensatory financing facility of the Fund. However, the need for IDA to consult with the IMF - to the extent any operations under the arrangement for supplementary financing involve matters normally within the competence of the IMF - is recognized.

40. The representative of the United States questioned the need for a specifically pre-defined method for the calculation of the trend or norm by reference to which the existence and size of a shortfall would be determined. He thought that the threat of disruption to a country's development programme arising from an export shortfall, or possibly other causes beyond the country's control, could best be determined ex post by IDA on the basis of a case-by-case examination of the country's needs and development programme and policies.

41. The funds for supplementary financing might be provided through an increase in the resources of IDA in the process of the third or subsequent replenishment. However, in order to avoid the possibility of funds lying idle in any commitment period, the representative of the United States thought that there should be no definite earmarking of funds for supplementary financing. In this connexion, it has been suggested that one possibility would be to lay down a maximum limit for the use of funds for purposes of supplementary financing in the form of a fixed percentage of IDA funds available during any particular year. If the actual need for supplementary financing during that year were less than the maximum limit, the funds could be used for other purposes by IDA. If the upper limit on the use of IDA funds for supplementary financing were high enough, the proposal of the representative of the United States for avoiding earmarking of funds of IDA would create no problem. But if the ceiling were relatively low and surplus funds in any one year could not be carried over to later years when the need for supplementary finance might be larger, the effectiveness of the proposed arrangements might be affected considerably.

42. Owing to the character of the arrangements suggested by the representative of the United States it is not possible to estimate their cost. The flexibility of the arrangements suggested would make it possible to operate them within the limits of any reasonable amount of resources.

ANNEX

Table 1

DEVELOPING COUNTRIES: EXPORT SHORTFALLS CALCULATED AS SHORTFALLS FROM AVERAGE
ANNUAL VALUE OF EXPORTS DURING THE TWO PRECEDING YEARS

(Million US dollars)

	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
Africa ^(a)	49.5	56.5	93.0	51.0	61.0	161.0	82.5	56.0	43.0	34.5	65.5	162.0
Asia ^(b)	444.5	59.0	132.0	98.0	649.5	9.0	-	187.0	211.5	50.5	270.5	102.5
Middle East ^(c)	7.5	-	32.5	143.0	62.0	95.0	-	24.0	112.5	-	3.5	13.5
Latin America ^(d)	68.5	422.0	99.5	383.0	593.5	158.0	31.0	138.0	122.0	3.0	6.0	55.5
Total	570.5	537.5	357.0	675.0	1366.0	423.0	113.5	405.0	489.5	88.0	345.5	333.5

(a) Includes: Algeria, Cameroon, Ethiopia, Ghana, Ivory Coast, Kenya, Liberia, Libya, Madagascar, Mauritius, Morocco, Nigeria, Sierra Leone, Senegal, Sudan, Tunisia, Uganda and the United Republic of Tanzania. Figures for the Ivory Coast and for Senegal are for the period 1961-65. The Ivory Coast did not have any shortfalls for the period for which export data were available.

(b) Includes: Burma, Ceylon, China (Taiwan), India, Indonesia, Malaysia, Pakistan, Philippines, Singapore, Thailand, Republic of Korea and Republic of Vietnam.

(c) Includes: Cyprus, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Saudi Arabia, Syria and the United Arab Republic. Of these, Iran, Israel and Kuwait did not have any shortfalls during the period considered.

(d) Includes: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay and Venezuela. Of these Trinidad and Tobago did not have any shortfalls during the period considered.

Source: UNCTAD secretariat based on data contained in IMF International Financial Statistics

Table 2
 NET EXPORT SHORTFALLS UNDER SCHEME A
 (Annual averages in million US dollars)

ESTIMATE A

1954-65

1. Gross export shortfalls ^(a)	475.3	
less		
2. Assistance from the compensatory ^(b) financing facility of the Fund	100.4	(160.2) ^(d)
plus		
3. Refinancing of compensatory ^(c) drawings	9.1	(25.9) ^(d)
4. Net shortfall	384.0	(341.0) ^(d)

(a) Country coverage is the same as in table 1.

(b) The following assumptions have been made in estimating assistance under the Fund's compensatory facility.

- (i) The medium term trend is estimated by using the formula $\frac{1}{4} x_{t-2} + \frac{1}{4} x_{t-1} + \frac{1}{2} x_t$ where x_t is the value of exports during the year of the shortfall and x_{t-1} and the x_{t-2} are values of exports one and two years preceding the year of shortfall respectively.
- (ii) The total amount of compensatory drawings outstanding at any time cannot exceed 50 per cent of the country's Fund quota.
- (iii) The total amount of compensatory drawings in any one year cannot exceed 25 per cent of the country's Fund quota.
- (iv) Fifty per cent of any export excesses (i.e. excess of actual exports over the medium term trend value) during each of the four years following a compensatory drawing are used for repurchase of outstanding drawings and the entire amount must in any case be repurchased in the fifth year. The year of shortfall is assumed to coincide with the year of drawing.

Footnotes (cont'd) Table 2

- (b) (v) Assistance during any given shortfall year is based on the country's actual quota as on 31 December of the year of the shortfall.
- (vi) For countries which are now Fund members but were not so in the past, it has been assumed that their present quotas are 25 per cent higher than their hypothetical quotas during 1959-64 (if they were not Fund members in the period) and that their quotas during 1959-64 were 50 per cent higher than their (hypothetical) quotas during 1954-58. Fund quotas were increased by 50 per cent in 1959 and there was another general increase of 25 per cent effective 1965.
- (c) Calculated on the assumption that the entire repurchase will be refinanced if it falls in a year of shortfall from the medium term trend. If the year in which a repurchase falls due happens to be a year of export excess, only the difference between the amount of the repurchase and the export excess (provided it is positive) will be refinanced.
- (d) Figures within brackets are estimates derived by using the Fund quotas as on 31 December 1967 (rather than the actual quota during the year of the shortfall) for calculation of assistance under the Fund's compensatory financing facility.

Source: UNCTAD secretariat.

ESTIMATE B

(Annual averages in million US dollars)

	1954-65
1. Gross export shortfalls ^(a)	475.3
less	
2. Assistance from the compensatory financing facility of the Fund (b)	112.7 (170.4) ^(d)
plus	
3. Refinancing of compensatory drawings (c)	17.1 (31.7) ^(d)
4. Net shortfall	379.7 (336.6) ^(d)

(a) Country coverage is the same as in table 1.

(b) All the assumptions made in footnote (b) of estimate A except assumption (iii) are valid. Instead of that assumption, we now assume that up to 50 per cent of quota can be drawn in any single year.

(c) Same as in footnote (c) to estimate A.

(d) Figures within brackets are estimates that would have resulted from using the Fund quotas as on 31 December 1967 (instead of actual quota as on 31 December of the year of shortfall) for calculation of assistance under the Fund's compensatory financing facility.

Source: UNCTAD Secretariat

ESTIMATE C

(Annual averages in million US dollars)

	1954-65	
1. Gross export shortfalls ^(a)	475.3	
less		
2. Assistance from the IMF compensatory financing facility ^(b)	109.1	(173.5) ^(d)
plus		
3. Refinancing of compensatory drawings ^(c)	26.6	(48.9) ^(d)
4. Net shortfall	392.8	(350.7) ^(d)

(a) Country coverage is the same as in table 1.

(b) Assumption (1) in footnote (b) of estimate A is replaced by the following: the medium term trend value of exports is calculated as the 5 year moving average centred on the year of shortfall. All the remaining assumptions of footnote (b) of estimate A are valid here as well.

(c) Same as in footnote (c) of estimate A.

(d) Figures within brackets are estimates that would have resulted from using the Fund quotas as on 31 December 1967 for calculation of assistance under the Fund's compensatory financing facility.

Source: UNCTAD Secretariat.

ESTIMATE D

(Annual averages in million US dollars)

	1954-65	
1. Gross shortfall ^(a)	475.3	
less		
2. Assistance from the Fund's compensatory financing facility ^(b)	138.6	(203.0) ^(d)
plus		
3. Refinancing of compensatory drawings ^(c)	28.2	(70.7) ^(d)
4. Net shortfall	364.9	(343.0) ^(d)

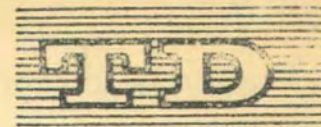
(a) The country coverage is the same as in table 1.

(b) Assumption (i) is the same as assumption (i) stated in footnote (b) of estimate C. Assumption (ii), (iv), (v) and (vi) of footnote (b) of estimate A are also valid. Instead of (iii) of footnote (b) of estimate A it is now assumed that up to 50 per cent of the quota can be drawn in any single year.

(c) Calculated in the same manner as stated in footnote (c) of estimate A.

(d) Figures within brackets are estimates that would have resulted from using the Fund quotas as on 31 December 1967 for calculation of assistance under the Fund's compensatory financing facility.

Source: UNCTAD Secretariat.



Distr.
GENERAL

TD/B/C.3/AC.3/26
17 April 1969

Original: ENGLISH

United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD
Committee on Invisibles and Financing
related to Trade
Inter-governmental Group on Supplementary Financing
Fifth session
New York, 23 June 1969

PROVISIONAL AGENDA AND ANNOTATIONS

Note by the UNCTAD secretariat

1. In decision 30 (II), the text of which is found in Annex II, the Conference instructed the Inter-governmental Group on Supplementary Financing to work out measures for supplementary finance and to report thereon to the Trade and Development Board no later than at its ninth session (scheduled from 26 August to 12 September 1969).
2. At its fourth session the Group agreed to concentrate on the nature of the further information that it would need to complete its work at its next session (see report on that session, document TD/B/200 - TD/B/C.3/53 - TD/B/C.3/AC.3/25). It formulated a list of questions requiring further examination by the secretariat, or by the staff of the World Bank or of the International Monetary Fund. These questions are contained in the programme of work agreed by the Group, which is reproduced in Annex III to this document. The questions relate to the following major topics:
 - (a) the nature of consultations presently conducted by the Fund and the Bank with member countries and their adaptation to the needs of a scheme for supplementary financing;
 - (b) the scope of measures of domestic adjustment in a country experiencing export shortfalls and minimum requirements for assistance to maintain essential imports;

- (c) the extent to which the World Bank staff Scheme could be implemented within the existing Articles of Agreement of the World Bank and the International Development Association (IDA), provided the Executive Directors so agreed and the necessary funds were made available;
 - (d) estimation of the cost of the scheme;
 - (e) the relationship between the Fund's compensatory financing facility and the scheme for supplementary financing;
 - (f) questions related to the examination of proposals contained in Scheme A in Chapter IV of the report of the Group on its third session (TD/33/Rev.1) and for arrangements to refinance the compensatory financing facility of the Fund.
3. In response to the Group's requests (see Annex III, sections A(ii) and B(i)), the UNCTAD secretariat has prepared two documents:^{1/}
- (a) "Hypothetical case studies of supplementary financing", TD/B/C.3/AC.3/28 and Addenda. This paper analyses the experience of four countries during the 1960s in an attempt to estimate the minimum amount of assistance that would have been required by these countries to maintain essential imports in the event of export shortfalls;
 - (b) "Supplementary Financial Measures: An Analysis of Scheme A in Chapter IV of the Report of the Inter-governmental Group on Supplementary Financing on its Third Session", TD/B/C.3/AC.3/27. This document provides an analysis of questions relating to other proposals, and possible variants thereof, which have been put before the Group during its discussions.
4. The staffs of the World Bank and the International Monetary Fund have also undertaken a review of the topics raised by the Group at its fourth session and the representatives of the Bank and Fund will be prepared to inform the Group of the results of this review at the fifth session.

^{1/} A list of documents is found in Annex IV.

5. In its recommendation the Conference mentioned five principal issues which need to be resolved, and which arise not only from the consideration of the World Bank staff Scheme but also from the consideration of alternative proposals. In the preparation of the following provisional agenda, and the annotations thereto, it has been assumed that the Group would wish to review these principal issues first (see item 2 of the provisional agenda), taking into account the submissions and statements by the UNCTAD secretariat, and those by the staffs of the World Bank and the Fund which relate to the topics raised by the Group at its fourth session. The Group may then wish to proceed to a consideration of alternative proposals for supplementary financial measures referred to in paragraph 5 of decision 30(II) of the Conference (see item 3 of the provisional agenda). Other issues which the Group had raised in its report on its third session are referred to under item 4 of the provisional agenda. In the annotations below, paragraph numbers refer, unless otherwise indicated, to document TD/33/Rev.1.^{1/}

^{1/} United Nations publication, Sales No.E.68.II.D.3.

PROVISIONAL AGENDA

1. Adoption of the agenda
2. Issues raised by the Conference
 - (a) The definition and method of assessment of reasonable expectations
 - (b) The scope, nature and acceptability of the understandings between the administering Agency and individual participant countries on their development programmes and the policies to be adopted in order to carry them out
 - (c) The measures to be taken by countries applying for assistance
 - (d) Relationship between supplementary finance and the IMF Compensatory Financing Facility
 - (e) Financial implications of supplementary finance, including the determination in quantitative terms of the disruption resulting from export shortfalls
3. Alternative proposals for supplementary financial measures
 - (a) A simplified scheme
 - (b) Refinancing the Fund Facility
 - (c) The propriety of supplementary finance
4. Other issues raised within the Group
5. Report to the Trade and Development Board at its ninth session
6. Other business

ANNOTATIONS TO THE PROVISIONAL AGENDA

Item 2: Issues raised by the Conference

(a) The definition and method of assessment of reasonable expectations

At previous sessions of the Group, most members have taken the position that for the purposes of supplementary finance the phrase "reasonable expectations" should be defined in terms of the level of exports which both the country concerned and the Agency are agreed upon as a suitable basis for drawing up a development plan or programme. On this view, the method of assessment of reasonable expectations would involve the use of export projections, although the exercise of judgment would also be required. The reasoning underlying this approach is that developing countries need some assurance that a projected level of export proceeds, envisaged as part of an agreed development plan, will be available throughout the plan period, to the extent that this level is required to prevent disruption of the agreed plan (paragraph 45).

Certain other members accepted the general line of reasoning outlined above but felt that "reasonable expectations" should not necessarily be regarded as fixed for the whole life of a development plan or programme. On this view, a mid-term (or more frequent) review of development plans might be made; or alternatively provision could be made for periodic revision of export forecasts (paragraphs 48-49).

One member proposed that shortfalls might be determined on the basis of certain pre-established guidelines without the use of projections (paragraph 51).

A further view was that the term "reasonable expectations" might be defined as meaning the norm used as a basis for the IMF's compensatory financing facility (see below under item 3, proposal (b) - "Refinancing the Fund Facility").

(b) The scope, nature and acceptability of the understandings between the administering Agency and individual participant countries on their development programmes and the policies to be adopted in order to carry them out

At its third session, the Group generally agreed that a policy understanding should be part of the Scheme, and that consultations between the Agency and member countries might be broadly along the lines of those conducted by international financial institutions (paragraphs 38 and 41).

It was also agreed, however, that the implementation of the policy understanding required further discussion, particularly with regard to the frequency and timing of consultations, and of any revisions of the policy understanding which might prove to be necessary (paragraph 40).

Another view was that since the Agency would in any case have to take some time to act upon a claim, no consultations might be necessary until a shortfall materialized, and that this need not affect the timeliness of assistance (paragraph 77).

(c) The measures to be taken by countries applying for assistance

The Group has generally agreed that measures of adjustment, which should be consistent with the over-all objectives of the development plan or programme, should be taken by applicant countries in consultation with the Agency (paragraph 75).

It was also generally recognized that where a shortfall in export earnings reflects a major structural change in the market prospects for an export product, it would be desirable not to delay the requisite adjustments to the new situation. It was less clear what the views of the Group were on the relationship between such adjustments and the amount of assistance to be provided. For example, granted that a revision of plans in a particular sector might affect the claims of that sector for assistance, would it be legitimate to seek to offset a decline in one sector by additional efforts in other sectors?

(d) Relationship between supplementary finance and the IMF Compensatory Financing Facility

The Group has agreed that recourse to supplementary finance should normally come after the use of the IMF Facility for Compensatory Finance to the extent that it is available and that recourse is feasible in accordance with the criteria of the IMF. Such recourse should take place through consultation between the Agency, the IMF and the country concerned (paragraphs 70-72).

(e) Financial implications of supplementary finance, including the determination in quantitative terms of the disruption resulting from export shortfalls

At its third session, most members of the Group considered the World Bank staff estimates a reasonable basis for consideration of the cost of the Scheme. Some other members, however, questioned both the data underlying the estimates and their amount (paragraphs 86-87).

Item 3: Alternative proposals for supplementary financial measures

(a) A simplified scheme

One member of the Group has proposed a simplified type of scheme, omitting export projections and any prior understanding on policy matters. A determination as to whether a decline in export receipts was a shortfall from reasonable expectations would be made by an agency ex post on the basis of certain established guidelines. After establishing the amount of the shortfall in accordance with these guidelines the Agency would take into account a number of considerations in order to arrive at a decision on the amount and terms of assistance. There would be a close connexion with the compensatory financing facility of the IMF, and close co-operation between the Agency and the Fund, possibly in a common body (paragraphs 105-106).

(b) Refinancing the Fund Facility

It was suggested at the third session of the Group that if the term "reasonable expectations" were to be defined as meaning the norm used as a basis for the IMF's Compensatory Financing Facility, it could be the basis for an alternative method of supplementary financing. This would involve a determination as to whether a country submitting a claim for assistance was making a reasonably effective effort to promote its own economic development, such determination to be based almost entirely upon the ordinary consultations with individual countries of the IMF, IBRD and other appropriate agencies (paragraph 112).

The principal purpose of the assistance would be to extend the period of re-purchase of IMF drawings, should the examination reveal that the obligation to re-purchase threatened the disruption of development efforts (paragraph 113).

(c) The propriety of supplementary finance

One member of the Group has suggested that the effort to find a purely financial solution to problems which arise because of the poor organization of trade relations between industrialized and developing countries is certain to fail to the extent that it is addressed to the symptoms and not to the root causes of the difficulties it is intended to resolve, unlike an effort to organize the markets for primary products (paragraph 122). Other members felt that "market organization", however defined, could not eliminate the problem of disruption of development due to unexpected export shortfalls.

Item 4: Other issues raised within the Group

(a) Import prices

There was a wide measure of support at the third session of the Group for the suggestion that, when a member country requested it, and the Agency was satisfied that the various statistical difficulties could be overcome, export shortfalls should be calculated in real terms (paragraph 61). The Director of the Statistical Office of the United Nations is of the opinion that there are no insuperable technical obstacles in this respect.

(b) Overages

At its third session the Group agreed that, in principle, overages should be used in reduction of claims on the Scheme. However, it was thought by many members that no simple deduction of overages would, in practice, be feasible: overages would provide one criterion for reaching a decision on the amount of assistance the Agency could give (paragraphs 63 and 66).

(c) Use of reserves

The Group reached agreement on this matter and no further study therefore appears to be required (paragraphs 67-69).

(d) Form of assistance

At its third session, the Group generally agreed that there should be a considerable degree of flexibility in determining the form of assistance, which would be such as to enable recipients to utilize such assistance for preventing the disruption of development programmes (paragraph 81). No further study of this matter seems to be required. The statutes of the Agency could provide for the necessary discretion in this field.

(e) Terms of assistance

At its third session the Group generally agreed that assistance should be on concessional and flexible terms based on an examination of the circumstances of individual countries including their over-all economic and financial situation - present and prospective - and paying particular regard to such factors as the export outlook, the debt service burden and savings potential (paragraph 84).

No further study of this aspect seems to be required. The statutes of the Agency could provide for the necessary discretion within the framework indicated above.

(f) Rationing

Although the goal of 100 per cent financing of unexpected shortfalls of a disruptive nature is considered desirable, the Group has agreed that it would be prudent to provide against the possible need to ration the Agency's disbursements if available resources are less than eligible claims. Various forms of rationing have been proposed (paragraph 90).

(g) Financial administration

The Group has given preliminary consideration to this matter, and a number of points have been raised (paragraphs 93-98).

(h) The Agency

There was general agreement in the Group at its third session that the creation of a new Agency for the administration of the scheme would be unnecessary, and that among the existing international agencies the IBRD group would be the most appropriate. There was also agreement that the Scheme should be administered in close co-operation with the IMF; and that the largest possible number of developing countries should be eligible for participation in the Scheme, whether or not they were currently receiving assistance from the International Development Association (IDA) (paragraphs 100-101).

Item 5: Report to the Trade and Development Board at its ninth session

In accordance with paragraph 6 (iv) of decision 30 (II) of the Conference, the Group will report to the Trade and Development Board at its ninth session, which is scheduled from 26 August to 12 September 1969.

ANNEX I

Recommendation A.I.V.18 of the First session of the Conference ^{1/}

SUPPLEMENTARY FINANCIAL MEASURES

A

The Conference,

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

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

I. Objective

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

II. Principles

2. The scheme should be provided with resources by contributions from participating countries, shared between them on an equitable basis.
3. Developing countries only should be eligible for assistance from the scheme; such assistance should be on concessional and flexible terms.
4. The scheme should normally be applicable after a developing country had had recourse to the International Monetary Fund, under its compensatory financing facility, and it had been possible to make a full assessment of the nature, duration and implications of any adverse movement in the export proceeds of the developing country concerned.

^{1/} The Conference adopted this Recommendation by 106 votes to none, with 10 abstentions.

5. An adverse movement for the purposes of the scheme should be regarded as a shortfall from reasonable expectations (see Note 1 below) of the level of export proceeds (including, in appropriate cases, invisible exports).
6. A prima facie case for assistance from the scheme should be established by reference to shortfalls from reasonable expectations and to their nature and duration (see Note 2).
7. Once a prima facie case has been established there should be an examination, under the International Development Association, of all relevant economic circumstances (see Note 3) in order to assess how far assistance from the scheme would be required and justified in order to help avoid disruption of development programmes. Subject to these points, assistance could cover a substantial proportion of a shortfall from reasonable expectations.
8. Resources for the scheme, which would be administered under the International Development Association, should be in the form of additional commitments, prescribed in advance, for contributions to the Association; all the major Part I member countries of the Association should contribute.

NOTES

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

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

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

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

B

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

1. That a fund be set up, financed by contributions from developed countries, as required, and administered by an appropriate agency of the United Nations;
2. That only developing countries should be eligible to draw from the Fund;
3. That disbursements should be in the form of non-reimbursable transfers and/or contingent loans on concessional terms;
4. That the criteria used in deciding upon claims should be as objective as possible and should include the following:
 - (a) The effect of shortfalls in export earnings and the adverse movements in the terms of trade;
 - (b) The effect on the country's development programme;
5. That to complement this longer term approach, facilities be provided for interim financing, when warranted, to assist the developing countries concerned while the longer term problem is being assessed.

ANNEX II

30 (II). Supplementary financial measures^{36/}

1. The Conference reaffirms the objective of the proposal for Supplementary Financial Measures set out in Annex A.IV.18^{37/} to the Final Act of the first session of the Conference. This states that "the new scheme should aim to deal with problems arising from adverse movement in export proceeds which prove to be of a nature or duration which cannot adequately be dealt with by short-term balance-of-payments support. Its purpose should be to provide longer term assistance to developing countries which would help them to avoid disruption of their development programmes."

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

3. The Conference expresses its appreciation of the report prepared by the staff of the International Bank for Reconstruction and Development;^{38/} and of the reports of the Inter-governmental Group on Supplementary Financing.^{39/} These reports have defined the issues involved and clarified many of them. The Conference agrees that further work is required to resolve some outstanding issues. The principal issues are:

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

^{36/} The Conference adopted this decision by 70 votes to none, with 8 abstentions.

^{37/} See Proceedings of the United Nations Conference on Trade and Development, vol. I: Final Act and Report (United Nations publication, Sales No.: 64.II.B.11), pp. 52 and 53.

^{38/} Supplementary Financial Measures - a Study requested by the United Nations Conference on Trade and Development, 1964 (International Bank for Reconstruction and Development, December 1965).

^{39/} TD/B/C.3/41, TD/B/C.3/44 and TD/33/Rev.1 (United Nations publication, Sales No.: E.68.II.D.3).

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

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

6. The Conference decides:

(a) To continue in existence the Inter-governmental Group suitably expanded;

(b) To request the Inter-governmental Group to consider the attempt to resolve the issues set forth in paragraphs 2 to 5 above.

(c) In the light of the foregoing considerations to instruct the Inter-governmental Group to work out measures for supplementary finance;

(d) To instruct the Inter-governmental Group to report thereon to the Trade and Development Board as early as possible, and no later than its ninth session;

(e) To direct the Trade and Development Board to study and take early action on the findings of the Inter-governmental Group, taking account of any proposals for action in the field of international commodity policy which may be submitted to the Board of Governors of the IBRD and the IMF on the basis of the studies which they have requested to be presented to them at their next annual meetings;

(f) To instruct the Chairman of the Inter-governmental Group to report on its progress to the seventh session of the Trade and Development Board.

79th plenary meeting,
28 March 1968

ANNEX III

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

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 information and comment would be required in order to enable it to formulate conclusions on supplementary financial measures 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 of the Fund, as may be appropriate. In order to provide guidance for this work the following list of questions has been established:

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

The Group requests the Secretary-General to invite the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) to consider those of the following questions with which they are concerned and to make available their comments to the Group at or before its fifth session. On certain other questions further comment is requested of the secretariat. It is requested that any written material should be submitted by 31 March 1969.

(i) Could the Agency's consultations within the framework of the 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 document 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 programmes? (UNCTAD)

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

- (iii) To what extent could the proposed 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 judgment, 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 of 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? (Bank)
- (v) How would the Compensatory Financing Facility (CFF) method of assessment of export shortfalls differ in practice from that of the Scheme when applied over a five-year period? Would the CFF assessment be self-correcting through adjustment over a period of time to a lower level of export earnings? Would the Scheme's method be brought closer to those of the assessment of shortfalls yielded by the CFF method if mid-term revision was carried out under the Scheme? 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? (Bank, Fund)
- (vi) If a country qualifies simultaneously for compensatory finance and for supplementary finance 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 Scheme? To what extent would help obtainable under the Scheme 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 relating to the examination of other proposals

(i) Would the secretariat undertake to analyze further Scheme A in Chapter IV of the report of the Group on its third session (TD/33/Rev.1), and possible variants thereof, after such consultations as it deems necessary with a view to enabling the Group to address itself at its next session 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.^{2/}
- 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:

- 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.
- The amount of funds required to achieve the objectives of the proposal.
- The possibilities of refinancing which may be available under the CFF and possible effects on the liquidity of the fund.
- The terms which may be appropriate to the refinancing proposed.

^{2/} 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.



United Nations Conference on Trade and Development

Distr.
GENERAL

TD/B/INF.16
24 September 1968

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Seventh session
Geneva, 2 September 1968

CALENDAR OF UNCTAD MEETINGS FOR THE REMAINDER OF 1968 AND FOR 1969
AND TENTATIVE SCHEDULE OF MEETINGS FOR 1970

At its 171st meeting on 18 September 1968 the Trade and Development Board adopted a revised calendar of UNCTAD meetings for the remainder of 1968 and for 1969 and approved a tentative schedule of meetings for 1970. These calendars are reproduced overleaf.

GE.68-18846

Calendar of UNCTAD meetings for the remainder of 1968 and for 1969
and tentative schedule of meetings for 1970

1968

	<u>Date</u>	<u>Duration</u>	<u>Location</u>
Trade and Development Board, seventh session	2-20 September	3 weeks	Geneva
Joint UNCTAD/FAO Working Party on Forest and Timber Products	23-27 September	1 week	Geneva
United Nations Sugar Conference (resumed)	23 September- 18 October	4 weeks	Geneva
Working Group on Tungsten, fifth session	24-26 September	3 days	New York
Committee on Manufactures, third session	8-19 October	2 weeks	Geneva
Intergovernmental Group on Supplementary Financing, fourth session	21-25 October	1 week	Geneva
Permanent Group on Synthetics and Substitutes, second session	22-29 October	6 days	Geneva
Committee on Commodities, third session	28 October- 8 November	2 weeks	Geneva
Special Committee on Preferences, first session	29 November- 17 December	2½ weeks	Geneva
Advisory Committee to the Board and to the Committee on Commodities, third session	9-13 December ^{1/}	1 week	Geneva
United Nations Cocoa Conference	to be determined	5 weeks	Geneva
Permanent Sub-Committee on Commodities	if required	1 week	to be deter- mined
Intergovernmental and/or expert groups (up to eight)	as required	2 weeks each	to be deter- mined
Intergovernmental consultations on individual commodities	as required	7 weeks	to be deter- mined

1969

Trade and Development Board, eighth session	21 January- 7 February	<i>Consols</i> 3 weeks	Geneva
Committee on Invisibles and Financing related to Trade, third session ^{2/}	17-28 February	2 weeks	Geneva

^{1/} Tentative

^{2/} In view of the importance of the financing element in this Committee's agenda, the Committee may wish to devote all of its third session to financing and to postpone consideration of invisibles (insurance and tourism) to its fourth session.

1969 (continued)

	<u>Date</u>	<u>Duration</u>	<u>Location</u>
United Nations Conference on Olive Oil	March	up to 4 weeks	Geneva
Committee on Shipping, third session	9-25 April	2½ weeks	Geneva
Special Committee on Preferences, second session	28 April-9 May	2 weeks	Geneva
Intergovernmental Group on Supplementary Financing, fifth session	23 June - (SF?) 4 July	2 weeks	Geneva
Committee on Tungsten sixth session	July ^{1/}	2 weeks	Geneva
Working Group on Tungsten, sixth session			
Committee on Tungsten: Statistical Working Party			
Trade and Development Board, ninth session	26 August- (SF?) 12 September	3 weeks	Geneva
Permanent Group on Synthetics and Substitutes, third session	6-10 October	1 week	Geneva
Committee on Commodities, fourth session	13-24 October	2 weeks	Geneva
Committee on Manufactures, fourth session	1-12 December	2 weeks	Geneva
Advisory Committee to the Board and to the Committee on Commodities	to be determined	2 sessions 1 week each	to be deter- mined
Advisory Group on the UNCTAD/GATT International Trade Centre	to be determined	4 days	Geneva
Two commodity conferences	as required	4-5 weeks each	to be deter- mined
Permanent Sub-Committee on Commodities	if required	1 week	Geneva
Intergovernmental and/or expert groups (up to ten)	as required	2 weeks each	to be deter- mined
Commodity consultations	as required	4-5 weeks	to be deter- mined

1/ Tentative

1970

	<u>Date</u>	<u>Duration</u>	<u>Location</u>
Trade and Development Board, tenth session ^{1/}	19 January- 6 February	3 weeks	Geneva
Permanent Group on Synthetics and Substitutes, fourth session	February	5 days	Geneva
Committee on Shipping, fourth session	March/April	2 weeks	Geneva
Committee on Invisibles and Financing related to trade fourth session	June/July	2 weeks	Geneva
Trade and Development Board, eleventh session ^{1/}	31 August- 18 September	3 weeks	Geneva
Committee on Commodities fifth session	September/October	2 weeks	Geneva
Committee on Manufactures fifth session	November/December	2 weeks	Geneva
Advisory Committee to the Board and to the Committee on Commodities	to be determined	2 sessions 1 week each	to be deter- mined
Advisory Group on the UNCTAD/GATT International Trade Centre,	to be determined	4 days	Geneva
Committee on Tungsten, seventh session	as required	1 week	to be deter- mined
Working Group on Tungsten, seventh session	to be determined	1 week	to be deter- mined
Permanent Sub-Committee on Commodities	if required	1 week	to be deter- mined
Two commodity conferences	as required	4-5 weeks each	to be deter- mined
Intergovernmental and/or expert groups (up to ten)	as required	1-2 weeks each	to be deter- mined
Commodity consultations	as required	4-5 weeks	to be deter- mined

^{1/} For statement by the secretariat regarding the timing and number of sessions of the Board in 1970, see summary record of the 173rd plenary meeting (TD/B/SR.173).



United Nations Conference on Trade and Development

Distr.
LIMITED

TD/B/C.3/L.32
19 April 1966

Original: ENGLISH

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

SUPPLEMENTARY FINANCIAL MEASURES

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

The Committee on Invisibles and Financing Related to Trade:

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

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

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

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

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

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

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

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

ANNEX

TERMS OF REFERENCE FOR INTERGOVERNMENTAL GROUP

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

- (vi) The appropriate period of time for which the relevant projections of exports should be established and the concomitant obligations of the Agency and the developing country concerned respectively should be assumed.
 - (vii) The relationship between supplementary financial measures and other types of economic assistance, both multilateral and bilateral, with particular regard to the need to ensure compatibility between them as regards the terms, conditions and criteria on which they are to be provided.
 - (viii) The comparative effects on economic development of the scheme proposed and of other possible methods which might be employed for the same purpose but with due regard to the primary task laid down in the fifth and sixth paragraphs of the resolution to which these terms of reference are annexed.
 - (ix) The status, membership and functions of the Agency and its relations with other international bodies, having regard to paragraphs 7 and 8 of Part A of Recommendation A.IV.18.
3. The Group may also put forward suggestions, for further consideration by governments, of ways in which the Scheme might be financed.

FORM No. 75
(2-60)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

INTERNATIONAL DEVELOPMENT
ASSOCIATION

ROUTING SLIP		Date
NAME		ROOM NO.
Mr. Friedman		1223
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From		
S. Kalmanoff		



Distr.
GENERAL

TD/96
7 May 1968

Original: ENGLISH

United Nations Conference on Trade and Development

Second session
New Delhi, India
1 February 1968

THE SIGNIFICANCE OF THE SECOND SESSION OF UNCTAD
Report to the Secretary-General of the United Nations

I

The first Development Decade is far from fulfilling its main objectives. It has been a Development Decade without a development policy. This cannot be repeated in the second Development Decade without very serious consequences.

The second Conference on Trade and Development could have contributed to the formulation of this development policy by approving a series of concrete measures to accelerate the rate of economic and social growth of developing countries and by inserting these measures into the basic framework of a broad strategy for development, as envisaged by the General Assembly.

This great objective was not achieved. The second Conference was able to obtain only very limited positive results that are not commensurate with the dimensions and urgency of the development problem.

Undoubtedly, international political difficulties and monetary and financial complications had an adverse influence on this unsatisfactory result. But it would be misleading to attribute to these factors the main responsibility. Even recognizing their importance, governments of developed countries could have gone much beyond these limited results in meeting the legitimate aspirations of developing countries.

The fundamental explanation is not due to prevailing circumstances. Since the first Conference a great intellectual advance has been achieved in the understanding of development problems. But this has not been followed by the recognition of the need for vigorous action. When, a few years ago, circumstances were favourable, no significant trade measures in favour of developing countries were taken and the international transfer of financial resources diminished in relation to the gross national product of developed countries. It seems that prosperity, in people as well as in nations, tends to form an attitude of detachment if not indifference to the well-being of others. However, it is comforting to see a growing sense of moral solidarity with developing countries in some sectors of developed countries and a farsighted view of the serious economic and political consequences of letting the third world continue to drift.

Be it as it may, developed countries, with a few exceptions, continue to consider the development problem as a residual one that can be tackled here and there with a few and insufficient measures instead of bold and resolute action. A great effort

at persuading public opinion and thus creating political will has to be made in order to avoid a second Development Decade of even deeper frustration than the first one. This is a matter of the highest priority.

This is the real background to UNCTAD II. In assessing the results of the Conference, these fundamental factors have much more importance than the episodic ones, and we should avoid the temptation to attribute these results to the cumbersome and unwieldy machinery of the Conference, the number of subjects on its agenda and the group system. The shortcomings of the machinery have prolonged and complicated unnecessarily the debates and the negotiation process. But had there been enough political will, these shortcomings would not have placed serious obstacles in the way of constructive achievements.

In order to present a condensed view of the results of the Conference, these can be divided into four broad categories:

- Limited and incomplete results concerning the fundamental problems of preferences and finance;
- Some positive results in the spheres of trade expansion among developing countries, trade with socialist countries, shipping, the food problem and policy in relation to least-developed and land-locked countries;
- Virtually no results in access to markets; and,
- No contribution to the formulation of a global strategy for development.

II

Limited and incomplete results

Preferences

This matter has to be seen in its proper perspective. Four years ago the request of developing countries for a system of general non-reciprocal and non-discriminatory preferences for their exports of manufactured and semi-manufactured goods was not accepted by the Conference. A few developed countries were in favour of it, others advocated a selective system as to both countries and goods, and the United States and some other developed countries were against the whole idea.

At the second Conference, developed countries fully accepted this idea, which was embodied in the OECD document presented to the Conference two months in advance. For the United States and other countries this means a fundamental change in traditional trade policy. And for the developing countries, it means the acceptance in principle by the developed world of an objective of paramount importance to them.

However, developed countries were not willing to negotiate with developing countries the main elements of the preferential system, as was hoped. Important connected matters were thus left unresolved, in particular the question of the inclusion of processed agricultural products and questions relating to the special preferential systems at present in force between some developed and developing countries. Progress had been made in discussions among developing countries on this question, but not sufficient to lead to a Conference decision that had the support of developed countries concerned, in particular in relation to reverse preferences: namely, those enjoyed by some developed countries in the markets of some developing countries. The continued existence of such preferences is, of course, incompatible with the principle of non-reciprocity established by UNCTAD I. Progress towards a solution of this problem would greatly facilitate the implementation of a general system of preferences benefiting all developing countries. It is not necessary to underline the political importance of this aspect, in addition to its economic significance.

The Conference decided to form a special committee for continuing the task of working out a scheme of preferences, with a view to reaching a definitive solution at the Trade and Development Board in 1969.

Finance

In relation to the transfer of financial resources to developing countries, the Conference took a step that may turn out to be very significant. Indeed, developed countries have recognized that the one per cent assistance target should be calculated on the basis of gross national product rather than net national income. Thus the developed countries have agreed to a higher assistance target, involving a potential increase of some 25% in the amount of resources to be transferred, over and above the level that would be implied in a target based on net national income.

In addition a number of developed countries have accepted a target year for the attainment of this objective. It is to be hoped that the other developed countries will also feel able to agree to a target year in the near future, since without this the target itself would be of uncertain significance. Socialist countries of eastern Europe have refrained from accepting the 1% target on the grounds that they are not historically responsible for the conditions prevailing in developing countries, though they stated that they will continue rendering economic and technical assistance to developing countries.

Some progress was made towards improving the terms and conditions of assistance. The Conference recognized the need to raise the norms set out in the present target for terms and conditions either by increasing the amount of aid given in the form of grants, or by improving interest rates, maturities or grace periods, or by increasing the grant element of the official aid commitments of donor countries. It was also accepted that improved arrangements are required to forecast and forestall debt crises. The Conference urged developed countries to take what practical measures they can to reduce the extent of aid tying, and specified practical steps to mitigate the harmful effects of tying.

With regard to supplementary financing, the results, without being negative, are disappointing. The World Bank staff, on the request of the first Conference, presented for discussion a scheme to deal with unexpected export shortfalls of developing countries. This scheme was thoroughly debated for nearly two years at a highly competent technical level. Therefore, it was quite legitimate to hope that the Conference would approve in principle a mechanism for supplementary financing as well as the main policy guidelines. The fact that some governments may consider that the moment was not favourable to allocate the resources necessary for the operation of this mechanism should not have interfered with its acceptance in principle. Indeed, this acceptance would in any case have to be followed by a further discussion of technical details, and the drafting, approval and ratification of an agreement; so that it would not have been necessary for governments to allocate funds for this purpose before 1970.

Notwithstanding these considerations, the Conference did not fulfil the expectations of developing countries. It recognized, however, the need to provide long-term financial assistance "to protect a country's development plan or programme against the effects of export shortfalls". What is now needed is the general acceptance of a scheme for the provision of such assistance so that developing countries will have some assurance that their development plans will not be disrupted by export shortfalls beyond their control.

The idea of a development plan has been accepted as basic in this scheme and this means the implicit recognition of the role of export projections in supplementary finance (a matter long discussed), as export projections are an essential element in the development plans of developing countries.

As in the case of preferences, the Conference decided that discussions should continue. The Intergovernmental Group which has been dealing with this matter is to be reconstituted and enlarged, and is to report to the Board no later than at its ninth session.

In relation to the pre-financing of buffer stocks, no results were achieved. The request of developing countries that governments of developed countries or international financial institutions should provide resources for that purpose was not accepted; nor was a compromise formula under which, in the study requested recently at the Rio meeting from the Fund and the Bank on commodity stabilization, these institutions would examine the possibility of mobilizing their own resources for the pre-financing of buffer stocks.

As has just been seen, the results of the Conference in relation to preferences, financial transfers and supplementary financing are much less than what could have been expected notwithstanding prevailing circumstances. But, incomplete as they are, they represent, nonetheless, moral commitments of an irreversible character. A great effort should be deployed within the permanent machinery of UNCTAD to achieve positive concrete results. The significance of the Board meeting in 1969 should be underlined in this connexion.

III

Some positive results

Trade expansion and economic integration among developing countries

The resolution of the Conference on this matter opens considerable possibilities for practical action. Developing countries have expressed their determination to take measures to vigorously promote trade and regional integration among themselves and, for the eventuality that concrete schemes are worked out by developing countries, the developed countries have committed their assistance to the fulfilment of this objective. But both groups of countries were less specific than would have been desirable. Work on various unresolved problems arising in this field has to continue in a subsidiary body of the Board, in close co-operation with the regional bodies.

Trade with socialist countries

The Conference has made a significant contribution in this matter. The inter-relationship of East-West trade and the trade of socialist countries with developing countries has been fully recognized in the context of world trade. And the permanent machinery of UNCTAD has been entrusted with operative functions in the promotion of trade between socialist and developing countries. Furthermore, it has been recommended to convene a meeting of experts to deal with the problem of multilateral payments between socialist and developing countries. However, the hope that socialist countries would establish quantitative targets for their imports of commodities and of manufactures and semi-manufactures from developing countries was not fulfilled.

Shipping

Resolutions on shipping constitute a good example of the influence of time, effort and research in the advancement towards proposals for action. Proposals which had met great obstacles some time ago were the subject of satisfactory resolutions, which were unanimously adopted. The most important of these refer to freight rates, merchant marines of developing countries and consultative machinery. Only the resolution on maritime legislation was approved by majority voting.

Least-developed and land-locked countries

The Conference, although unable to deal adequately with the problems of the least-developed countries due to lack of time, nevertheless agreed that special attention to these needs should be given in any measures designed to benefit developing countries as a whole. Also, the land-locked countries achieved recognition that their particular problems required special attention and should be considered as a factor in determining which are the least-developed countries.

The world food problem

The Conference agreed, with only one dissenting vote, on a declaration calling upon developing countries to take a series of policy measures with respect to improvement of food production and distribution, promotion of agro-industries and to cope with the food problems created by the dynamics of population; developed countries were urged to strengthen their aid programmes (including interim food aid) in support of these objectives and to take measures providing more favourable conditions of access for primary products exporting countries; the international institutions concerned were asked to intensify their co-operation and to co-ordinate their approach to the world food problem.

IV

Lack of results in other important matters

Access to markets

UNCTAD II achieved no substantive results on this matter other than a general statement of principle, in the context of the declaration on the world food problem, that primary products exporting countries should "to the extent practicable" be permitted to participate in the growth of the markets of industrial nations. In the first Conference, developing countries had obtained a similar compromise resolution but with such reservations that in practice nothing was achieved. In the light of this experience, they recommended measures to the second Conference that would have given their exports of commodities a share in the increment of consumption of developed countries. It proved impossible to attain this objective. Nor was the very modest request accepted that the possibilities for specific action on this matter of access be at least examined (including action on non-tariff barriers to exports of manufactures and semi-manufactures of developing countries).

Strategy of development

The General Assembly expected UNCTAD II to contribute to the formulation of a strategy for development, with the second Development Decade in mind.

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However, this is a matter of decisive importance and it is to be hoped that the permanent machinery of UNCTAD will respond in adequate time to the aims of the General Assembly.

But the forces opposing these aims should not be underestimated. A global strategy of development has to be comprehensive, embracing both the main aspects of a very complex process and the measures to be taken jointly by developed and developing countries. But there is considerable resistance, in both developed and developing countries, to the adoption of these measures in their totality. In trade, converging measures should be taken by both groups of countries in a concerted fashion; it is not enough that developed countries give ample access to exports from developing countries

or that the latter expand trade among themselves in order to overcome the persistent tendency to external disequilibrium interfering with the acceleration of their rate of growth: the combination of both measures is indispensable.

The same applies in relation to finance. Developed countries should increase the volume of financial resources to be transferred, improve the terms and be willing, in principle, to commit these resources for the fulfillment of a development plan. And this is a matter which encounters great resistance. On the other hand, developing countries, in order to make proper use of the resources transferred to them and to intensify the mobilization of their own resources so as to promote their own growth, have generally to introduce deep reforms in their economic and social structures, modify their attitudes and policies and follow the reasonable discipline of a sound development plan. And this also faces great opposition, in this case within the developing countries themselves. No wonder that the idea of a global strategy, notwithstanding its apparent attractiveness, faces strong obstacles, which must be overcome before it can gain full acceptance.

Be that as it may, there is no other way of tackling the common problem of development than by joint, systematic and co-ordinated action within the framework of a well-defined long-term strategy.

V

Shortcomings of UNCTAD machinery

It was said at the beginning of this report that the machinery of UNCTAD has proved again to be cumbersome and unwieldy. All this can and should be corrected; and the first requirement for doing so is to formulate a frank criticism of its deficiencies in the light of recent experience. This criticism concerns the machinery of UNCTAD as such and its functions, as well as the group system underlying it.

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The machinery is heavy due mainly to the great number of members and the multiplicity of deliberative meetings. UNCTAD has 133 members and this has influenced the membership of the Board (55) and of different committees (45 and 55).

The Conference involved the simultaneous running of a plenary and eight committees, together with some hundred contact and geographical groups, and required over 975 meetings during a period of eight weeks. This reflects in a very accentuated way the

inheritance from a parent organization essentially geared towards deliberation and not to the negotiation of agreements on concrete economic and trade problems.

The initial effort at the beginning of this organization to limit the membership of the Board and of the Committees to a more manageable number failed. And what is more serious, the idea presented long before the second Conference to limit the membership of working parties in order to facilitate the process of negotiation also failed. The results of this were clearly seen during the second Conference.

Another unsuccessful attempt, also made before the Conference, was to limit the number of items on its agenda. As could be expected, it proved to be practically impossible to deal with all of them seriously and in an orderly fashion, and to effectively negotiate on so many items as those on the agenda of UNCTAD II. And the attempt to concentrate activities on a manageable list of "points of crystallization", as they emerged from the fifth session of the Board, also failed.

The permanent machinery should have been used to facilitate the work of the Conference and make it more effective. In the light of this experience, the decision of the Conference to use the permanent machinery to complete what has not been fully accomplished is to be welcomed. From a more general point of view, a balance has to be found between the role of the permanent machinery and that of the Conference, keeping in mind that after debating matters it is indispensable to negotiate measures for practical action. In addition to the responsibilities it must continue to discharge in the field of commodities, a clearer recognition by all governments of UNCTAD as a consultative and negotiating body in other fields of its competence is required.

Last but not least, there was a regrettable dissipation of energies in repetitious debates. The general debate in the plenary is very useful as a presentation of the views and aspirations of governments. But its repetition in the subsidiary organs (committees and working parties) means a considerable waste of time and resources. This is what happened at the Conference, notwithstanding insistent warnings at the fifth session of the Board. In addition, this had the regrettable result of lowering the quality of debate on the substance of the matters under consideration.

Therefore, a serious attempt should be made to improve UNCTAD's machinery in order to make it more effective and conducive to practical results. The seventh session of the Board has been requested by the Conference to consider two draft resolutions, one introduced jointly by Chile and India, and the other by Sweden, dealing with this matter. The secretariat is seeking the views of all Member Governments for presentation to the Board and will also present some suggestions.

The group system

The group system has proved to be very useful and has great potentialities. As concerns the developing countries, the "Group of 77" has been an effective instrument for finding common denominators and in formulating well-defined objectives for joint action. This is also true of other groups.

But the group system has also demonstrated its shortcomings and these were accentuated at the last Conference, seriously jeopardizing its efficient functioning and unduly extending its duration.

Take, first of all, the attempt to strengthen group solidarity by unanimous group decisions. The result was obvious: the group of developed countries tended to agree, in response to the requests of the developing countries, on the lowest common denominator. The dynamic drive of some delegations of developed countries to meet certain aspirations of developing countries was thus lost. As for the group of developing countries, frequently it had to agree to the maximum demands of some of its members. And in these attempts to arrive at full unanimity, it was enough that one or a few countries inside the group had a dissenting attitude to unduly delay or even paralyze not only the decisions of the group but also the progress of the whole Conference.

Another shortcoming concerns the ability to negotiate. In addition to the large membership of negotiating bodies, group discipline often may have prevented useful inter-group communications among delegates whose experience and knowledge could have facilitated in proper time the search for compromise agreements.

If UNCTAD's machinery is to become effective, a serious effort has to be made to correct these shortcomings.

However, it is not only a matter of organization and functioning, but also of conviction as to the need for unity in this long and difficult struggle of the developing countries. This conviction has proved again to be strong. But this sense of unity may be seriously jeopardized by the structural weaknesses of the negotiating system of the developing countries.

But if this factor was detrimental to the negotiations, it would be a mistake to consider that it had a decisive influence on the results of the Conference. In fundamental matters such as preferences, financing (both basic and supplementary) and access to markets, it appears that with some exceptions, the position of developed countries in general was previously determined in a rather rigid fashion, and it is hard to imagine that substantially different results would have been attained, without a reasonable degree of flexibility having been introduced into these previously determined rigid positions.

These are frank views in relation to the second Conference. They are intended to be constructive, in order to promote the effectiveness of this new machinery. For it to be fully effective, however, also some measures of internal reorganization of the secretariat must be envisaged, taking into account the first four years of experience.

RAUL PREBISCH
Secretary-General of the Conference



Distr.
GENERAL

TD/96
7 May 1968

Original: ENGLISH

United Nations Conference on Trade and Development

Second session
New Delhi, India
1 February 1968

THE SIGNIFICANCE OF THE SECOND SESSION OF UNCTAD
Report to the Secretary-General of the United Nations

I

The first Development Decade is far from fulfilling its main objectives. It has been a Development Decade without a development policy. This cannot be repeated in the second Development Decade without very serious consequences.

The second Conference on Trade and Development could have contributed to the formulation of this development policy by approving a series of concrete measures to accelerate the rate of economic and social growth of developing countries and by inserting these measures into the basic framework of a broad strategy for development, as envisaged by the General Assembly.

This great objective was not achieved. The second Conference was able to obtain only very limited positive results that are not commensurate with the dimensions and urgency of the development problem.

Undoubtedly, international political difficulties and monetary and financial complications had an adverse influence on this unsatisfactory result. But it would be misleading to attribute to these factors the main responsibility. Even recognizing their importance, governments of developed countries could have gone much beyond these limited results in meeting the legitimate aspirations of developing countries.

The fundamental explanation is not due to prevailing circumstances. Since the first Conference a great intellectual advance has been achieved in the understanding of development problems. But this has not been followed by the recognition of the need for vigorous action. When, a few years ago, circumstances were favourable, no significant trade measures in favour of developing countries were taken and the international transfer of financial resources diminished in relation to the gross national product of developed countries. It seems that prosperity, in people as well as in nations, tends to form an attitude of detachment if not indifference to the well-being of others. However, it is comforting to see a growing sense of moral solidarity with developing countries in some sectors of developed countries and a farsighted view of the serious economic and political consequences of letting the third world continue to drift.

Be it as it may, developed countries, with a few exceptions, continue to consider the development problem as a residual one that can be tackled here and there with a few and insufficient measures instead of bold and resolute action. A great effort

at persuading public opinion and thus creating political will has to be made in order to avoid a second Development Decade of even deeper frustration than the first one. This is a matter of the highest priority.

This is the real background to UNCTAD II. In assessing the results of the Conference, these fundamental factors have much more importance than the episodic ones, and we should avoid the temptation to attribute these results to the cumbersome and unwieldy machinery of the Conference, the number of subjects on its agenda and the group system. The shortcomings of the machinery have prolonged and complicated unnecessarily the debates and the negotiation process. But had there been enough political will, these shortcomings would not have placed serious obstacles in the way of constructive achievements.

In order to present a condensed view of the results of the Conference, these can be divided into four broad categories:

- Limited and incomplete results concerning the fundamental problems of preferences and finance;
- Some positive results in the spheres of trade expansion among developing countries, trade with socialist countries, shipping, the food problem and policy in relation to least-developed and land-locked countries;
- Virtually no results in access to markets; and,
- No contribution to the formulation of a global strategy for development.

II

Limited and incomplete results

Preferences

This matter has to be seen in its proper perspective. Four years ago the request of developing countries for a system of general non-reciprocal and non-discriminatory preferences for their exports of manufactured and semi-manufactured goods was not accepted by the Conference. A few developed countries were in favour of it, others advocated a selective system as to both countries and goods, and the United States and some other developed countries were against the whole idea.

At the second Conference, developed countries fully accepted this idea, which was embodied in the OECD document presented to the Conference two months in advance. For the United States and other countries this means a fundamental change in traditional trade policy. And for the developing countries, it means the acceptance in principle by the developed world of an objective of paramount importance to them.

However, developed countries were not willing to negotiate with developing countries the main elements of the preferential system, as was hoped. Important connected matters were thus left unresolved, in particular the question of the inclusion of processed agricultural products and questions relating to the special preferential systems at present in force between some developed and developing countries. Progress had been made in discussions among developing countries on this question, but not sufficient to lead to a Conference decision that had the support of developed countries concerned, in particular in relation to reverse preferences: namely, those enjoyed by some developed countries in the markets of some developing countries. The continued existence of such preferences is, of course, incompatible with the principle of non-reciprocity established by UNCTAD I. Progress towards a solution of this problem would greatly facilitate the implementation of a general system of preferences benefiting all developing countries. It is not necessary to underline the political importance of this aspect, in addition to its economic significance.

The Conference decided to form a special committee for continuing the task of working out a scheme of preferences, with a view to reaching a definitive solution at the Trade and Development Board in 1969.

Finance

In relation to the transfer of financial resources to developing countries, the Conference took a step that may turn out to be very significant. Indeed, developed countries have recognized that the one per cent assistance target should be calculated on the basis of gross national product rather than net national income. Thus the developed countries have agreed to a higher assistance target, involving a potential increase of some 25% in the amount of resources to be transferred, over and above the level that would be implied in a target based on net national income.

In addition a number of developed countries have accepted a target year for the attainment of this objective. It is to be hoped that the other developed countries will also feel able to agree to a target year in the near future, since without this the target itself would be of uncertain significance. Socialist countries of eastern Europe have refrained from accepting the 1% target on the grounds that they are not historically responsible for the conditions prevailing in developing countries, though they stated that they will continue rendering economic and technical assistance to developing countries.

Some progress was made towards improving the terms and conditions of assistance. The Conference recognized the need to raise the norms set out in the present target for terms and conditions either by increasing the amount of aid given in the form of grants, or by improving interest rates, maturities or grace periods, or by increasing the grant element of the official aid commitments of donor countries. It was also accepted that improved arrangements are required to forecast and forestall debt crises. The Conference urged developed countries to take what practical measures they can to reduce the extent of aid tying, and specified practical steps to mitigate the harmful effects of tying.

With regard to supplementary financing, the results, without being negative, are disappointing. The World Bank staff, on the request of the first Conference, presented for discussion a scheme to deal with unexpected export shortfalls of developing countries. This scheme was thoroughly debated for nearly two years at a highly competent technical level. Therefore, it was quite legitimate to hope that the Conference would approve in principle a mechanism for supplementary financing as well as the main policy guidelines. The fact that some governments may consider that the moment was not favourable to allocate the resources necessary for the operation of this mechanism should not have interfered with its acceptance in principle. Indeed, this acceptance would in any case have to be followed by a further discussion of technical details, and the drafting, approval and ratification of an agreement; so that it would not have been necessary for governments to allocate funds for this purpose before 1970.

Notwithstanding these considerations, the Conference did not fulfil the expectations of developing countries. It recognized, however, the need to provide long-term financial assistance "to protect a country's development plan or programme against the effects of export shortfalls". What is now needed is the general acceptance of a scheme for the provision of such assistance so that developing countries will have some assurance that their development plans will not be disrupted by export shortfalls beyond their control.

The idea of a development plan has been accepted as basic in this scheme and this means the implicit recognition of the role of export projections in supplementary finance (a matter long discussed), as export projections are an essential element in the development plans of developing countries.

As in the case of preferences, the Conference decided that discussions should continue. The Intergovernmental Group which has been dealing with this matter is to be reconstituted and enlarged, and is to report to the Board no later than at its ninth session.

In relation to the pre-financing of buffer stocks, no results were achieved. The request of developing countries that governments of developed countries or international financial institutions should provide resources for that purpose was not accepted; nor was a compromise formula under which, in the study requested recently at the Rio meeting from the Fund and the Bank on commodity stabilization, these institutions would examine the possibility of mobilizing their own resources for the pre-financing of buffer stocks.

As has just been seen, the results of the Conference in relation to preferences, financial transfers and supplementary financing are much less than what could have been expected notwithstanding prevailing circumstances. But, incomplete as they are, they represent, nonetheless, moral commitments of an irreversible character. A great effort should be deployed within the permanent machinery of UNCTAD to achieve positive concrete results. The significance of the Board meeting in 1969 should be underlined in this connexion.

III

Some positive results

Trade expansion and economic integration among developing countries

The resolution of the Conference on this matter opens considerable possibilities for practical action. Developing countries have expressed their determination to take measures to vigorously promote trade and regional integration among themselves and, for the eventuality that concrete schemes are worked out by developing countries, the developed countries have committed their assistance to the fulfilment of this objective. But both groups of countries were less specific than would have been desirable. Work on various unresolved problems arising in this field has to continue in a subsidiary body of the Board, in close co-operation with the regional bodies.

Trade with socialist countries

The Conference has made a significant contribution in this matter. The inter-relationship of East-West trade and the trade of socialist countries with developing countries has been fully recognized in the context of world trade. And the permanent machinery of UNCTAD has been entrusted with operative functions in the promotion of trade between socialist and developing countries. Furthermore, it has been recommended to convene a meeting of experts to deal with the problem of multilateral payments between socialist and developing countries. However, the hope that socialist countries would establish quantitative targets for their imports of commodities and of manufactures and semi-manufactures from developing countries was not fulfilled.

Shipping

Resolutions on shipping constitute a good example of the influence of time, effort and research in the advancement towards proposals for action. Proposals which had met great obstacles some time ago were the subject of satisfactory resolutions, which were unanimously adopted. The most important of these refer to freight rates, merchant marines of developing countries and consultative machinery. Only the resolution on maritime legislation was approved by majority voting.

Least-developed and land-locked countries

The Conference, although unable to deal adequately with the problems of the least-developed countries due to lack of time, nevertheless agreed that special attention to these needs should be given in any measures designed to benefit developing countries as a whole. Also, the land-locked countries achieved recognition that their particular problems required special attention and should be considered as a factor in determining which are the least-developed countries.

The world food problem

The Conference agreed, with only one dissenting vote, on a declaration calling upon developing countries to take a series of policy measures with respect to improvement of food production and distribution, promotion of agro-industries and to cope with the food problems created by the dynamics of population; developed countries were urged to strengthen their aid programmes (including interim food aid) in support of these objectives and to take measures providing more favourable conditions of access for primary products exporting countries; the international institutions concerned were asked to intensify their co-operation and to co-ordinate their approach to the world food problem.

IV

Lack of results in other important matters

Access to markets

UNCTAD II achieved no substantive results on this matter other than a general statement of principle, in the context of the declaration on the world food problem, that primary products exporting countries should "to the extent practicable" be permitted to participate in the growth of the markets of industrial nations. In the first Conference, developing countries had obtained a similar compromise resolution but with such reservations that in practice nothing was achieved. In the light of this experience, they recommended measures to the second Conference that would have given their exports of commodities a share in the increment of consumption of developed countries. It proved impossible to attain this objective. Nor was the very modest request accepted that the possibilities for specific action on this matter of access be at least examined (including action on non-tariff barriers to exports of manufactures and semi-manufactures of developing countries).

Strategy of development

The General Assembly expected UNCTAD II to contribute to the formulation of a strategy for development, with the second Development Decade in mind.

The secretariat, following the lines of the report presented by the Secretary-General of UNCTAD to the Conference, was prepared to advance suggestions on this matter. But it refrained from doing so before it became clear whether fundamental positive results would emerge; and they did not. A global strategy without concrete measures would have been another document of pious declarations without any practical consequences.

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But the forces opposing these aims should not be underestimated. A global strategy of development has to be comprehensive, embracing both the main aspects of a very complex process and the measures to be taken jointly by developed and developing countries. But there is considerable resistance, in both developed and developing countries, to the adoption of these measures in their totality. In trade, converging measures should be taken by both groups of countries in a concerted fashion; it is not enough that developed countries give ample access to exports from developing countries

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But if this factor was detrimental to the negotiations, it would be a mistake to consider that it had a decisive influence on the results of the Conference. In fundamental matters such as preferences, financing (both basic and supplementary) and access to markets, it appears that with some exceptions, the position of developed countries in general was previously determined in a rather rigid fashion, and it is hard to imagine that substantially different results would have been attained, without a reasonable degree of flexibility having been introduced into these previously determined rigid positions.

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RAUL PREBISCH
Secretary-General of the Conference

SecM68-1

FROM: The Secretary

January 2, 1968

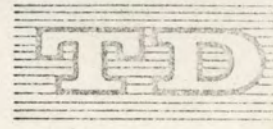
STUDY ON SUPPLEMENTARY FINANCING

Attached for information is a copy of the Final Report of the Intergovernmental Group on Supplementary Financing adopted by the Group at its third session held at Geneva from October 30 to November 13, 1967. The report is a document of the United Nations Conference on Trade and Development, and it is assumed that additional copies would be available from the United Nations.

A report on the Geneva session, prepared by the Bank delegation, was distributed as document SecM67-311, dated November 30, 1967.

Distribution:

Executive Directors and Alternates
President
President's Council
Executive Vice President, IFC
Vice President, IFC
Department Heads, Bank and IFC



Distr.
GENERAL
TD/33
16 November 1967
Original: ENGLISH

United Nations Conference on Trade and Development

Second session
New Delhi, India
1 February 1968
Item 12(c) of the provisional agenda

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

SUPPLEMENTARY FINANCIAL MEASURES

Final report of the Intergovernmental Group
on Supplementary Financing as
adopted by the Group at its third session
held at Geneva from 30 October to 13 November 1967^{1/}

^{1/} The Intergovernmental Group was established in pursuance of, and its terms of reference were laid down by, a resolution adopted by the Committee on Invisibles and Financing related to Trade on 20 April 1966 (Official Records of the Trade and Development Board, fourth session, Supplement No. 3 (TD/B/73/Rev.1) Report of the Committee on Invisibles and Financing related to Trade on its resumed first session, Annex I(a)). The resolution was approved by the Trade and Development Board at its fourth session (Official Records of the General Assembly, twenty-first session, Supplement No. 15 (A/6315/Rev.1), Part Two, para. 147). The Group's reports on its first and second sessions (TD/B/C.3/41 and 44) were considered at the second session of the Committee on Invisibles and Financing related to Trade (Official Records of the Trade and Development Board, fifth session, Supplement No. 3 (TD/B/118/Rev.1), chapter VI). The Board at its fifth session approved the programme of work of the Intergovernmental Group as reflected in chapter VI of the Committee's report and authorized the Group to report direct to the second session of the Conference (A/6714, Part One, para. 116).

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Chapter I

INTRODUCTION AND GENERAL ASSESSMENT

A. Introduction

1. The first United Nations Conference on Trade and Development adopted the recommendation contained in annex A.IV.13 to its Final Act on Supplementary Financial Measures, part A of which requested the International Bank for Reconstruction and Development (the "Bank") to prepare a study of the feasibility of a scheme to deal with problems arising from unforeseen adverse movements in export proceeds of a nature or duration which could not be adequately dealt with by short-term balance of payments support and, if appropriate, to work out such a scheme.^{1/} In response to this recommendation the staff of the Bank prepared a study entitled "Supplementary Financial Measures" (TD/B/43) (hereinafter referred to as "the Study"). The study proposed a scheme (hereinafter referred to as "the Scheme") for the provision of supplementary finance to developing countries to prevent disruption of their development programmes in consequence of unforeseen export shortfalls. The Scheme would be based on an understanding between the administering Agency and the countries concerned regarding the broad content of development plans and policies, including export forecasts and the role of basic finance in their development programmes. Such a relationship between the Agency and a participating country would ensure the prompt provision of supplementary finance should the need arise. Chapter II of this report presents in detail the results of the Group's consideration of the Scheme and related matters. Opinions expressed in the Group are not attributed to individual members, though the developing countries members of the Group have prepared a separate statement of their views the text of which is circulated as a document of the second Conference (TD/41).

2. Throughout the discussions of the Group its work has been facilitated by the staff of the Bank. In the first instance the excellent Study prepared by the Bank staff served as a basis for the Group's discussions. Furthermore, as the work of the Group progressed, valuable guidance was frequently provided to the Group by the Bank staff in the form of additional studies or participation in its discussions by representatives of the Bank. The Group wishes to record its appreciation for the generous assistance furnished to it by the staff of the Bank. The Group wishes also to express its gratitude to the members of the staff of the International Monetary Fund (IMF) who provided a great deal of valuable enlightenment on a number of points which arose in the course of discussion.

^{1/} Proceedings of the United Nations Conference on Trade and Development, vol. I, Final Act and Report, United Nations publication, Sales No. 64.II.B.11, p.52.

3. The terms of reference of the Intergovernmental Group on Supplementary Financing direct it to submit a report on the Study (TD/B/43) presented to the Secretary-General of UNCTAD by the staff of the Bank (with such modifications to the Scheme as it may consider appropriate) as a means of achieving the objective set out in part A of the recommendation in annex A.IV.18 to the Final Act of the First Conference. They instruct the Group, in so doing, to pay attention to certain points: the scope of the Scheme; the form, terms, and conditions of financial assistance; the relationship between resources and requirements; the boundary between economic and political problems which may arise in the administration of any scheme; certain questions relating to its administration and to the period of time to which it shall apply. These are set out in paragraphs 2(a) to (f) of the terms of reference. All these matters are examined in chapter II of the present report, though the sequence of treatment differs from that in which they are mentioned in the terms of reference.

4. The Group is also directed (under paragraph 2(i) of its terms of reference) to consider the status, membership and functions of the proposed Agency and its relations with other international bodies. This matter is dealt with in chapter III of this report.

5. It is further provided by paragraph 3 of the terms of reference that the Group may put forward suggestions of ways in which the Scheme might be financed. The estimated cost of the Scheme is discussed in chapter II of the present report. The Group has not, however, considered the question how the responsibility for providing funds should be apportioned among contributing governments (and in particular, whether contributions should be limited to the developed countries).

6. Apart from being directed to report on the Study, the Group was called upon to consider certain other questions arising under paragraph 2(g) and (h) of its terms of reference. Paragraph 2(g) directs the Group to have regard to the relationship between supplementary financial measures and other types of aid, with particular reference to the terms, conditions and the criteria of the provision of aid. Questions relating to these terms and conditions are discussed in chapter II of this report, as is the relationship between supplementary financial measures and the compensatory financing facility of the International Monetary Fund. This sub-paragraph necessitates, however, reference to the question of the relationship between supplementary finance and what may be termed the basic aid received by a country to help to finance its development programme. This in turn raises the question whether, and what assurance can be given that, supplementary finance will be genuinely additional to this basic aid.

7. Before turning to the central purpose of this report, the Group considers that some comment on these points is necessary in this introductory chapter. On the first question, most members argued that there must be adequate guarantees of the basic finance required for a development plan. They recognize that contributors cannot necessarily be asked to accept legally binding commitments extending over the period of the plan, but they believe that there must be sufficiently firm assurances of the levels of aid, of a kind which the present annual pledges do not provide, so that countries can embark with some measure of confidence, at the beginning, on a plan or investment programme which generates a continuing requirement for external finance over subsequent years. While the Scheme offers no new guarantee of basic aid, either directly or by implication, it involves an understanding with the Agency as to the reasonableness of the developing country's expectation of basic aid during the period. Some members suggested that some better degree of assurance would eventually emerge from the development of the processes of international consultation to which supplementary financial measures would contribute. Others however emphasized that long-term assurances of basic finance to individual developing countries were only in some cases now being made, that there was a substantial question whether they could be made generally available in the future and that a supplementary scheme representing only a small part of total assistance would not necessarily bring these assurances.

8. Recommendation A.IV.18 states that "resources for the Scheme, which would be administered under the International Development Association, should be in the form of additional commitments, prescribed in advance, for contributions to the Association". The language, strictly speaking, applies only to the level of contributions to IDA or by implication to whatever agency might administer the Scheme. But some members of the Group argued that the recommendation as a whole should be interpreted to mean that resources for the Scheme should be additional to total aid levels. Expressing concern that resources allocated to supplementary finance might be at the expense of the normal flow of basic finance, they emphasized that, in their view, any resources provided under a scheme of supplementary financial measures should be net additions to the aid accorded by the contributing countries. Other members pointed out that while the introduction of a new scheme of this kind might, indeed, be expected to increase the total flow of aid, it was in their view difficult, if not impossible, to demonstrate that the aid programme of a country has, in the event, increased by the amount of its contribution to the scheme of supplementary financial measures; or, conversely, to determine what the size of that

programme would have been if no contribution to such a scheme had been made. The problem is further complicated, in the view of some members of the Group, by the need for governments to decide the relative priority of new claims on scarce resources.

9. Paragraph 2(h) of its terms of reference directs the Group to study the comparative effects on economic development of other possible methods which might be employed for the same purpose. The Group interprets these words in a broad sense as referring to any methods which reduce fluctuations in the prices of primary commodities exported by developing countries or deal in some measure with the effects of such fluctuations. The methods mentioned in the Group's discussions have been the negotiation of agreements governing individual commodities or the devising of some more general arrangements of the kind sometimes referred to under the term "organization of markets". With reference to questions of the former kind, several members of the Group emphasized that supplementary financial measures must not prejudice the negotiation of individual commodity agreements. It has also been pointed out that the scheme of supplementary financial measures should be complementary to individual commodity agreements and that an increase in the number of such agreements might reduce the cost of the scheme.

10. One member expressed very grave doubts and reservations about the effects of a supplementary financing scheme. These doubts have to do with, among other things, the possibility of establishing a scheme of market organization.

11. The Group has taken note of the studies now initiated by the International Bank and the International Monetary Fund, in consequence of decisions taken at the recent meetings of their Boards of Governors.^{1/} The questions mentioned in the two preceding paragraphs are referred to briefly in chapter IV of this report.

12. Throughout its work, the Group maintained the conviction that any scheme of supplementary financial measures that might be adopted would not remove the need for action in the field of international trade or the need for the provision of basic development finance, which are necessary for the expansion and diversification of the external trade of developing countries and for the acceleration of their economic growth.

^{1/} Resolution concerning "Stabilization of prices of primary products" adopted by the Board of Governors of the IMF at Rio de Janeiro on 29 September 1967, in joint session with the Boards of Governors of the Bank, the International Finance Corporation and the International Development Association.

B. General assessment

13. Our terms of reference require us to submit a report on the Study - with such modifications to the proposed Scheme as we consider appropriate - as a means of achieving the objective set out in the Recommendation contained in Annex A.IV.18 (Part A) of the Final Act of the first Conference. We have recorded the main points made by different members of our Group. This report sets out our assessment of the Scheme in so far as we have been able to reach agreement.
14. Our conclusions appear under the various headings in our report. They should, however, be supplemented by a statement of our general view of the feasibility of the Scheme.
15. A few members have stated that, in view of unresolved questions of some importance (and without prejudging the question whether the objectives set out in recommendation A.IV.18 should be achieved by a scheme with the characteristics of that of the Bank staff or in other ways), they are not as yet prepared to take a position.
16. One member expressed the view that the Scheme would not be either a timely or a genuine solution to the basic problem - the instability and inadequacy of the export proceeds of developing countries - which in its opinion could only be dealt with efficaciously by a system of organization of markets for primary products.
17. All other members of the Group believe that, although a number of questions, some of them important, require further consideration, the objective set out in Part A of the recommendation can be achieved by a scheme with the essential characteristics of the Bank staff Scheme.

Chapter II
THE BANK STAFF SCHEME

Introduction

18. This chapter deals with the Scheme proposed in the Bank staff Study^{1/} and sets out the results of the discussion of the Group under the following main headings:

- A. Basic elements
 - (i) The development programme, policy understandings and consultations
 - (ii) Export expectations
- B. The operation of the Scheme
 - (i) Import prices
 - (ii) Overages
 - (iii) Use of reserves
 - (iv) Resources of the IMF
 - (v) Adjustments
 - (vi) Assessment of claims
 - (vii) Form of assistance
 - (viii) Terms of assistance
 - (ix) Costs
 - (x) Rationing
 - (xi) Financial administration

19. Three sections have been placed under each sub-heading: section (a) gives a brief indication of the views of the Bank staff regarding the operation of the scheme, as evolved from the Study, papers presented by the Bank staff to the Group, and their discussions within the Group; section (b) notes the main criticisms and comments expressed within the Group about features of the Scheme and presents modifications to the Scheme which have been suggested by members of the Group; and section (c) presents the conclusions which the Group or most of its members reached under each sub-heading.

^{1/} The terms "the Study" and "the Scheme" are used interchangeably to designate the study prepared by the Bank staff and the scheme for supplementary financial measures set out therein, taking into account the statements made by the Bank staff to the Group in the course of its discussions.

A. Basic elements

(i) The development programme, policy understandings and consultations

20. The Scheme for supplementary finance suggested by the staff of the World Bank, as set out in the Study and as developed and clarified by the Bank staff in discussions with the Group, is designed to help to avoid the disruption of well-conceived development programmes caused by a lack of foreign exchange due to an unexpected export shortfall. The Scheme provides for an effective understanding between a member country and the Administering Agency on export projections and development programmes and policies. If a country acts in accordance with the agreement embodying this understanding and if actual exports are lower than agreed projections, there is a prima facie case for prompt assistance under the Scheme, provided that the country is fulfilling the understanding at the time the shortfall occurs. The assistance is to be used to allow the level of investment to be maintained and to permit any necessary adjustment in the structure of investment to take place in an orderly manner conducive to maintaining the development momentum of the country.

21. (a) The basic elements of the understanding between the Agency and a participating country are a development programme, a statement of the policies which would be applied in order to achieve its objectives and balance-of-payments projections, including export proceeds as well as other sources of foreign exchange, for the period covered by the programme. These are inter-related. They would include both the expected levels of domestic investment in principal sectors as well as expected external financing. The export projections would be a guide to the amount of the principal source of foreign exchange earnings.

22. These bases would enable the country to reach an understanding with the Agency about the policies it would pursue in order to achieve the objectives defined by the country. The policy understanding, as envisaged in the Study, would be arrived at through close co-operation and exchange of views between the Agency and the country. Its formulation would be based on an objective and realistic evaluation of the member's needs and possibilities and a pragmatic assessment of the proposed measures for achieving the objectives of the development programme. In reaching a policy understanding, it is possible and advisable to make use of procedures already followed in international organizations such as the World Bank group and the IMF.

23. Policies cannot be defined in general (or detailed) terms applicable uniformly to all countries. There would be necessarily an important element of judgement by the Agency. It is also necessary to reappraise and, as appropriate, to revise the policy

understanding. Accordingly, the initial understanding cannot be assumed to remain unchanged during the plan period. It would be adapted to the circumstances which might arise in the course of a planning period.

24. The assessment of performance should be based on economic criteria, and there is no question of interference with the sovereignty of nations.

25. The Scheme envisages periodic reviews and consultations, in pursuance of the initial understanding, between the Agency and member countries which may be requested at the initiative of either but would not take place without the concurrence of the country concerned.

26. (b) The comments on these basic elements of the Scheme dealt with the following major issues: consistency between the policy understanding and the sovereignty of developing countries, the degree of comprehensiveness of the policy understanding, the relationship between the policy understanding and availability of basic finance and the frequency and timing of consultations between the Agency and developing countries.

27. Most members of the Group emphasized that in no case should the policy understanding in practice infringe national sovereignty. In the view of some members it might, in practice, be difficult to observe this principle absolutely.

28. Some members also stated that the nature and extent of the obligations, with respect to revisions and adjustments to be undertaken by a developing country should not be such as to lead to the risk of disruption of its development effort.

29. As to the coverage of the policy understanding, there were two schools of thought - one advocating a limited policy understanding, the other a more comprehensive one. Some, belonging to the first school of thought, emphasized that the coverage of the understanding should be confined to the national accounting relationships and macro-economic targets which might be contained in a development plan. The application of measures for the implementation of the plan, which would be embodied in the understanding, should be ensured through informal consultations. Another suggestion was that, in view of the residual character of assistance from the Scheme the policy understanding should be limited to the export projections and an indication of basic policies. This approach was considered all the more desirable in that the understanding would involve unnecessary duplication, for it would already have been reached, at least in certain cases, in making arrangements for basic finance. Other members argued that, even if the initial understanding were limited to macro-economic targets, it would be necessary to examine other matters, including many questions of policy, either in the process of consultation or when a claim arose, if the Agency were to operate effectively.

30. In the view of some, belonging to the second school of thought, the understanding could not be confined to the export sector alone, because of the inter-dependence of economic sectors and policies.

31. Some, belonging to the second school of thought, expressed the view that the nature and content of the policy understanding should be tailored to the objectives of the scheme, and that of central importance in this connexion should be the government's commitment to good performance in the pursuit of sound policies of development. Some expressed the view that the policy understanding might well go beyond present understandings between developing countries and the IBRD/IDA or the IMF in scope and duration and that it might well lead to an increase in the influence of international institutions on the economic policies of developing countries.

32. Several members emphasized that the formal assumption of an obligation by a developing country to adhere to a policy understanding should be matched by a concomitant obligation - not necessarily legally binding - on the part of the donors with respect to basic finance if the whole arrangement were to be made politically acceptable to developing countries. Others suggested that it might be reasonable to suppose that at the most, as international relations in this area evolve, developing countries might receive more assurance of the availability of basic finance, a matter of vital concern to them.

33. Yet others expressed the view that one of the difficulties of the Scheme was that developed countries would not be able to give firm assurances that they would be able to provide basic finance over the longer term. This factor would naturally reduce the firmness of the Agency's assessment in reaching an understanding on a development programme and policies, of the reasonableness of a country's expectations of basic finance over the plan period.

34. A few members considered that consultations might take place at the beginning of a plan period and further consultations and revisions only when an export shortfall occurred. It was further pointed out by some members that the appraisal of the programme and policies when a shortfall occurred should be in terms of adherence to the initial policy understanding, even if after the event the targets were not met.

35. One member suggested that countries which had not concluded a prior policy understanding with the Agency should not necessarily be excluded from the benefits of the Scheme. Such countries could still apply for supplementary assistance at the time of a shortfall, with the decisions on assistance then depending upon the outcome of

consultations between the country and the Agency at that time. Most of the members emphasized that prior policy understandings were one of the basic characteristics of the Scheme and that reliance on consultations after the event without a prior policy understanding would fundamentally change the Scheme and make it subject to much of the criticism mentioned in chapter IV, paragraph 107.

36. Some members envisaged the use of a "performance test" as one factor which the Agency might take into account in rationing its resources if such a necessity were to arise.

37. A few members, while acknowledging the basic concept of the policy understanding to be sound and constructive, questioned its feasibility in view of the burden it would impose on the Agency which would be required to work out understandings with a very large number of developing countries.

38. (c) It was generally agreed that a policy understanding should be part of the Scheme.

39. The scope and nature of the policy understanding require further discussion.

(i) It was generally agreed that the policy understanding should not involve commitments which would infringe the sovereignty of any member country as defined by that country.

(ii) Most members also agreed that it should include export projections and a statement of the country's basic economic policies.

(iii) It was generally agreed that it should be adapted to the circumstances of individual countries.

40. The implementation of the policy understanding (including the frequency and timing of consultations and any revisions which may be necessary) requires further discussion.

41. However, it was generally agreed that:

(i) consultations might be broadly along the lines of those conducted by international financial institutions;

(ii) the understanding and consultations should have particular regard to the objectives of the Scheme.

(ii) Export expectations

42. (a) An integral part of the Scheme is a mutually agreed projection of "reasonable expectations" of export earnings over a period of years. Its basic function would be to help to estimate available foreign exchange receipts. It would also be used to determine whether and to what extent an unexpected shortfall of export earnings occurred during the

period. Such projections are based on expert judgements regarding world and country trade developments and regarding domestic policies affecting export earnings. The export projection may differ widely from historical trends. The experience of the Bank staff in making export projections has been considerable, and the Bank staff has stated that usable export projections can be made to establish reasonable expectations for the purposes of the Scheme. Their quality could of course be improved, and the Bank in its own projection work is constantly trying to improve its analytical tools as more statistical data become available.

43. Although based for the most part on major commodity exports, the Bank's projections would take all merchandise exports into account. The question whether invisibles should be taken into account in export projections would be decided on a country-by-country basis, in the light of the significance of these items in a country's foreign exchange receipts and of the nature of the data available.

44. The Bank staff has suggested that, for the purposes of the Scheme, during the operation of the development plan the underlying export projection should not be subject to revision except when changed conditions justify a major readjustment of the investment pattern and of development strategy, because investment calculations must be based on export projections. Whether or not such a major readjustment is required would be determined in consultations between the Agency and the country concerned. Such consultations and adjustments will be requested at the initiative of either.

45. (b) Most members argued that export projections were an essential feature of the Scheme. It was noted that the differences in methods of calculating export shortfalls under the Scheme and under the IMF compensatory financing facility reflected differences in basic objectives: the former was designed to deal with the unpredictability of export earnings, the latter with their fluctuations around the medium-term trend. The Scheme is designed to provide countries with an assurance that a projected level of export proceeds, envisaged as part of an agreed development plan, will be available throughout the plan period, to the extent that this level is required to prevent disruption of the agreed plan. On the other hand, the IMF facility, not directly linked to the planning process, is intended to offset negative deviations from a medium-term trend of exports, whether such fluctuations are foreseen or not. A few members thought that the term "reasonable expectations" was ambiguous and might be defined in a number of ways, e.g. by simple extrapolation, expert judgement, or as a medium-term trend. The implications of some of these alternatives are spelled out in chapter IV. Other members argued that the concept must be defined to mean a reasonable forecast of export earnings, having

regard to past experience, any factors which might affect future demand and prices, and any measures of policy which the government in question intended to undertake which might affect its exports.

46. A few members pointed out that export projections for individual countries must be consistent. Consequently, they argued, it would be necessary to take into account demand in world markets for the commodities considered. It follows that the Agency would, implicitly, have to make a judgement concerning the shares of individual producers in world markets.

47. A number of criticisms were made of the validity of export projections as a basis for financial commitments. It was argued by some members that not only was the uncertainty of global estimates too great but that, even if errors in estimates of individual countries offset each other, the problem of equity among them would still remain since those whose estimates proved to have been optimistic or inflated would benefit more from the scheme than those whose estimates were more realistic or even pessimistic. This problem is inherent in the uncertainties of estimation. Other members emphasized that countries presenting optimistic or inflated estimates might witness a reduction in the amount of basic finance they could count upon; in that case, the possibility of their benefiting from the Scheme more than countries with realistic estimates would probably be balanced by that reduction. Two members felt that, while export projections might play a valuable role in the framework of development planning, they were not suited to serve as a basis for the calculation of claims. On the other hand, it was argued that the uncertainty facing planning authorities in relation to exports was the primary justification of the Scheme and that, unless it dealt with this uncertainty, it would fail in its object. It was nevertheless widely felt that some revision of export projections should be envisaged in order to meet the main criticisms.

48. It was suggested that one way of reducing the uncertainty would be to accept that, since development plans require revision for a number of reasons, no plan put forward at the beginning of a plan period is likely to remain unrevised, and that this, as the Bank staff recognizes, would inter alia, involve revision of export forecasts. The Agency would keep the progress of the plan under review in the periodic consultations which are envisaged. It was suggested that in practice a single mid-term review would be appropriate and would make it possible to review export projections as well as thereby increasing their reliability. It would not infringe the purposes of the Scheme, since the revised projections would be part of a development plan which had itself been revised in consequence of changes in the economic position and prospects. Some

members argued that, since frequent revision of the export projections underlying a country's participation in the Scheme would defeat the basic objective of supplementary finance, revisions should be the exception rather than the rule, and concluded that the uncertainty inherent in export projections must be accepted. Some members argued that export projections should in no case be revised.

49. A second modification which was suggested by some members would be to provide for more frequent revision of export forecasts without this being necessarily part of a revision of the whole development plan. A way of making revisions mentioned by one representative would be for the Agency to review export forecasts annually and if necessary to revise them, normally in consultation with the country concerned, if a significantly more accurate estimate appeared possible. However, in the case of a deep and potentially protracted shortfall during the initial year of a forecast the Agency could maintain the original forecast up to three years to the extent its resources permit. It was further suggested that agreed export forecasts need not be a prerequisite for participation in the benefits of the Scheme. Should the Agency and some participating countries not reach agreement on a single forecast, the Agency would inform them of the forecast level which it would use as a basis for a subsequent application for supplementary finance. These suggestions would reduce the assurance given by the Scheme, but it could be argued that, if adopted, some degree of assurance would still be provided in the sense of the recommendation.

50. Most members emphasized that agreed export forecasts were one of the basic characteristics of the Scheme. They considered that a scheme operated without a requirement for such forecasts or with such frequent revisions of them would fundamentally change the Scheme proposed by the Bank staff and make it subject to much of the criticism of paragraph 107 of chapter IV.

51. One member proposed instead that the Agency's determination of any shortfall should be made on the basis of certain pre-established guidelines but without the use of projections. It might compare e.g. the actual export receipts during the year with the average of the two preceding years. The difference between the two could be defined as a shortfall from reasonable expectations and serve as the basis for the Agency's determination of the amount and terms of assistance. In doing so, it would take account of the additional considerations noted in chapter IV, part A.

52. A number of other members expressed the view that export projections were an essential element of a scheme based strictly on recommendation A.IV.18. Without them the Scheme would become different in kind and should be regarded as another possible method

which might be employed (as defined in paragraph 2(h) of the Group's terms of reference). For this reason, this method of dealing with the problem is discussed in chapter IV. Other members also took the view that without export projections certainty and speed of assistance would not be assured.

53. It was pointed out that it seemed rather difficult to include in export projections receipts on account of invisibles, owing to deficiencies of information and inasmuch as the value of these receipts would be greatly affected by each country's policies. Some members pointed out that nevertheless an effort should be made to include receipts on account of invisibles in appropriate cases.

54. A few members raised the question of the relative importance of export shortfalls compared with other causes of instability in the external finances of development. While not questioning the premise (that is, that adverse movements in the export proceeds can be disruptive of development programmes) on which recommendation A.IV.18, Part A, and the Study are based, they pointed out that development may nevertheless be disrupted by other causes affecting the availability of foreign exchange. A study of this subject was requested of the staff of the Bank. The Bank staff stated that they had encountered conceptual and statistical difficulties in making this study, but that the matter was under consideration. Since the premise mentioned above has been accepted, the outcome of this study would not call into question the need for supplementary financial measures but it would help to define the scope of the Scheme and would increase knowledge of other external causes of disruption of development programmes.

55.(c) It was widely agreed that the term "reasonable expectations" used in the recommendation contained in Annex A.IV.18, Part A, of the Final Act of first Conference should be interpreted to mean the best judgement which can be reached by the country concerned and the Agency, in consultation, as to the probable receipts from exports during the plan period, having regard to past experience, factors which may affect the future trend, and the policy intentions of the government concerned. This would be an essential element of the Scheme, however amended.

56. It was generally agreed that such expectations covering a planning period should be revised if necessary when a plan required revision.

57. Other reasons for revisions, the frequency of revision and the way in which decisions would be taken about export expectations and about revision, require further discussion.

B. The operation of the Scheme

58. According to the Scheme an export shortfall is the amount by which actual export proceeds (in nominal or real terms) during the plan period fall short of the previously agreed projected export proceeds for that period. This is defined as the gross shortfall. However, it is envisaged that the amount of assistance provided under the Scheme would become "less than the amount of shortfall, in accordance with prior understanding between the member and the Agency, by deducting (a) accumulated averages; (b) drawings on a member's own reserves, where feasible; (c) use of the IMF compensatory financing facility, or other credit or grant credit facilities, if available; and (d) that portion of the shortfall that could be absorbed by the country without disruption of the development effort" (Study, p.66). This is defined as the net shortfall.

(i) Import prices

59. (a) The Study recognizes that, ideally, export shortfalls should probably be calculated in real terms, i.e. after taking account of unexpected movements in import prices. The Study recognizes that certain conceptual and statistical difficulties would arise in doing so.^{1/}

60. (b) Some members supported the Bank staff's view that, owing to these difficulties, consideration of import prices should not be brought into the Scheme in the initial period. Other members did not feel that the problems were insoluble and emphasized the importance of import price changes.

61. (c) The desirability of taking movements in import prices into account was widely recognized. There was also a wide measure of support for the suggestion that, when a member country requested it, and the Agency was satisfied that these difficulties could be overcome, the export shortfalls should be calculated in real terms.

(ii) Overages

62. (a) The basic principle proposed in the Scheme is that financial assistance should be related to the amount of shortfalls - the amounts by which actual exports fall short of projected exports in particular years - net of the deductions mentioned in paragraph 58. These include "overages" - the amounts by which export proceeds exceed projected values in other years within the same planning period. In this way, the country uses any overages it earns during a plan period to finance shortfalls which occur in that same period. Because overages may occur before or after particular shortfalls, it is

^{1/} Study, pp. 64-65 and document TD/B/C.3/AC.3/13

proposed that the assistance provided by the Scheme during a projection period should be in the form of "contingent credits", a part or all of which might be repaid within the projection period. At any time during the plan period, the total contingent credits extended by the Scheme to a country would equal the total shortfalls net of total overages and other deductions, which have already occurred up to that time. If an overage occurs after such contingent credits have been advanced, then the overage would be used to repay them. All the contingent credits which remain outstanding at the end of the period would be converted to a long-term credit.

63. (b) The Group agrees that, in principle, overages should be used in reduction of claims on the Scheme. Many members, however, argued that there were a number of considerations which would in practice seriously modify any simple statistical use of the concept.

64. There are, first of all, difficulties in assessing overages and making them available. It has been suggested that the Government in question might not know of the overages until they had been earned and spent, and that it might find it difficult to mobilize resources accruing in the form of receipts to private exporters; these difficulties can be exaggerated but there is some force in them.

65. Secondly, it has been argued that there may be legitimate uses to which overages might be put before any occasion arose for making a claim under the Scheme. One is that there might be an unforeseen increase in the need for imports, arising for a variety of reasons. Another is that the Government in question might wish to repay short-term external debt or to build up its external reserves. A third is that it might wish to accelerate or increase its investment for development. In the view of many members, these are possibilities which must be taken into account by the Agency in consultation with the country.

66. (c) The Group generally agreed that no simple deduction of overages would, in practice, be feasible. The concept (and the calculations based on it) would serve, rather, to indicate one criterion for reaching a decision on the amount of assistance the Agency could give. To the extent that overages were not used to offset shortfalls, the cost of the scheme would be increased.

(iii) Use of reserves

67. (a) The Study suggests (pp.8 and 9) that the understanding between the Agency and member countries would include the amount of reserves which might appropriately be used to finance a development plan or to make feasible adjustments to unexpected

shortfalls in export proceeds. The country concerned would, in both cases, decide upon these matters in consultation with the Agency both in drawing up a financial plan or a balance of payments projection or subsequently in deciding upon measures of adjustment. It is clear that the Agency's judgement about these matters would be made on the basis of advice from the IMF.

68. (b) No comments suggesting significant modifications were made.

69. (c) It was generally agreed that these were desirable features of the Scheme.

(iv) Resources of the IMF

70. (a) The Study recognizes that, in accordance with recommendation A.IV.18, recourse to supplementary finance should normally come after the use of the Fund's facility for compensatory finance to the extent that it is available and that recourse is feasible in accordance with the criteria of the IMF. This same statement might apply, in view of the reclassification provisions of the decision of the Executive Directors of the IMF to enlarge and modify the facility in September 1966, to ordinary drawings to the extent that they may be reclassified as compensatory. Recourse, to the extent possible, to ordinary credit tranches of the IMF is also contemplated in the Study. This would be done in consultation between a country, the IMF and the Agency, but any recourse to the ordinary credit tranches would not be a prerequisite to access to supplementary finance. The Agency may provide finance, in appropriate cases, to enable a member to meet its repurchase obligations to the IMF arising from compensatory drawings as defined above.

71. (b) A few members observed that the Agency should take care, in providing assistance for these purposes, not to impinge on the relations between the IMF and its members. It was noted that recourse to the resources of the IMF, whether ordinary or compensatory, in all appropriate cases, would assist the Agency in matching its resources to the claims upon them.

72. (c) The Group generally agreed with these proposals, subject to the proviso that prior recourse should be had to the Fund in appropriate cases through consultation between the Agency, the IMF and the country concerned.

(v) Adjustments

73. (a) Under the Scheme, some measure of adjustment would be expected in the case of unexpected shortfalls. In the first instance, these would have been specified in the policy understanding. The Agency would remain in contact with the member country in order to adapt the policy understanding in this and other respects to changing

circumstances. The Scheme provides that in the event of an unexpected shortfall compressible consumer imports would usually be reduced first. Other measures of adjustment might include reductions in investment in export sectors when world demand is falling, postponing less urgent or less important public expenditures or altering the tax structure. The purpose of this Scheme is stated to be to introduce real resources into the economy and thereby permit the maintenance of most of the agreed investment in the development programme while permitting an orderly change in the pattern of investment to the extent necessary. (Study pp.50-51).

74. (b) It was recognized that receipt of supplementary finance would not eliminate the need for adjustments to a shortfall in export earnings. While it would be difficult to foresee every situation that might arise, it was agreed that adjustments undertaken should be consistent with the overall objectives of the development programme in question. It was also argued that, where a shortfall in export earnings reflects a major structural change in the market prospects of an export product, the measures of adjustment should facilitate adaptation to that change. Such adaptation might in suitable circumstances include provision for diversification. The view was expressed that, depending on the seriousness of the change, it might be desirable to revise the development plan itself. Whether a shortfall requires a relatively minor modification of current economic and financial policies or a revision in the development plan, the previously agreed level of foreign exchange receipts needed to carry out the development plan (in its original agreed form or as subsequently revised) should be maintained. It was suggested by some members that the nature of the adjustments which might be required as a condition for the receipt of supplementary finance should be the subject of prior agreement and should be centred on trade policies and related fields. The point was also made that what constituted "feasible" adjustments could not be determined in advance of the experience which made them necessary; the satisfactory determination of feasible adjustments would depend on confidence being established between the Agency and member countries.

75. (c) It was generally agreed that measures of adjustment, which should be consistent with the overall objectives of the development programme, should be taken by the country in consultation with the Agency.

(vi) Assessment of claims

76. (a) The problem of assessing claims in the context of the implementation of policies and programmes would be dealt with in the following manner. The Scheme makes provision for periodic consultations between the Agency and a participating country. In the actual operations, there might also be need for consultation between the Agency and the member country when an unexpected export shortfall resulted in a need for finance from the Agency. The purpose of this consultation, however, would only be to ensure that other available sources of financing were being used and that feasible adjustment measures not endangering the development programme were being taken. Thus, the consultation would not reduce the certainty or speed of availability of needed assistance. The Agency would be able at this time, to determine whether the country is entitled to assistance. The amount would be decided in accordance with the criteria set forth in sections (i) and (v) above.

77. (b) A number of members argued that the Agency, after having established the amount of the shortfall, should then take into account a number of considerations in order to arrive at its decision on the amount and terms of assistance, rather than relying on any more or less automatic procedure. It was suggested that this examination could and should be speedy since there would already have been contact between the country and the Agency in the form of the policy understanding and consultations. Other members felt that such a procedure would give the Agency too wide a discretion which would deprive the potential beneficiaries of the certainty of assistance which the scheme would provide. In addition, the decision on claims would be unduly delayed. Some members, while agreeing fully with the need for supplementary financing and with the general lines of the Study, expressed the opinion that no consultations were necessary until a shortfall materialized, since, owing to the residual character of the Scheme and the elaborate procedure for claiming assistance, a certain time lag was inevitable in any case.

78. (c) Conclusions on this point will depend on final agreement about the policy understandings and consultations to which it is closely related.

(vii) Form of assistance

79. (a) The Study proposes that the Agency decide in each case whether assistance should take the form of a freely usable loan or a loan for the financing of particular imports. The Study suggests that the realization of the objective of the Scheme, namely preventing the disruption of sound development programmes in the event of an

export shortfall, would indicate that assistance ought to be provided in a form that the recipient country could use fairly promptly. Assistance related to projects would not normally serve this end, because of the delays involved in project preparation and evaluation. It could be left to the discretion of the Agency to work out an agreement with the member country as to how the finance would be applied to ensure that the development programme could go forward.

80. (b) Some members suggested that in some cases it might be desirable to promote specific projects, e.g. for purposes of diversification or for earning foreign exchange. Many argued, however, that the form of assistance should be such that it could be speedily utilized.

81. (c) It was generally agreed that there should be a considerable degree of flexibility in determining the form of assistance, which should be such as to enable recipients to utilize such assistance for preventing the disruption of development programmes.

(viii) Terms of assistance

82. (a) Recommendation A.IV.18 of the first Conference states that "assistance should be on concessional and flexible terms". The Study envisages that supplementary finance should normally be provided on the same terms as those applicable to basic long-term development finance provided to the same country. The decision on terms would be based on an examination of the individual circumstances of various countries, including their overall economic and financial situation - present and prospective - and paying particular regard to such factors as the export outlook, the debt service burden and savings potential. The Scheme assumes that, whenever the situation requires concessional terms for basic finance, supplementary finance should also be made available on concessional terms. The Agency would have the right to request repayment earlier than originally stipulated if the resource and foreign exchange position of a country improved so substantially as to enable it to repay its debts to the Agency before maturity without affecting the progress of agreed development programmes.

83. (b) It was suggested that the terms of supplementary finance should reflect the terms of basic finance applicable at the time of a shortfall and not necessarily those applicable to basic finance at the beginning of the plan. According to an alternative suggestion, although the terms of assistance should be flexible, they ought to be related to the duration of the shortfall and there might therefore be

provision for harder terms than those for basic finance in appropriate circumstances. A few members advanced the suggestion that, instead of tailoring the terms of assistance to the economic circumstances of each country individually, it would be administratively more convenient to group countries into categories, each of which would have specified terms of assistance. It was suggested on the other hand, however, that care should be taken not to oversimplify, since the purpose of supplementary finance was to deal with unforeseeable situations, each of which might have different characteristics.

84. (c) It was generally agreed that the assistance should be on concessional and flexible terms based on an examination of the circumstances of individual countries including their overall economic and financial situation - present and prospective - and paying particular regard to such factors as the export outlook, the debt service burden and savings potential.

(ix) Costs

85. (a) The Bank staff has estimated that, as a reasonable working figure, the Scheme should have total resources of about \$200-400 million a year for an initial experimental period of five years. The Scheme, however, enters a new area of international economic co-operation by suggesting a method of coping with the difficulties caused by the unpredictability of export proceeds. Thus, there is no historical basis for making a precise estimate of future costs. The estimate put forward was, however, based on an analysis of considerable closely related historical experience available to the Bank staff from its work with member countries during the past twenty years and is in its view the best, if not the only, way of proceeding. Estimates might be based on alternative assumptions, but in the Bank staff's view, these, although they may seem more precise, would probably produce less reliable results. The aim of the analysis made was to arrive at a figure at which the Scheme might reasonably be expected to operate successfully in the initial period. The Bank staff points out that in considering their own^{1/} or any other estimate of gross shortfalls, a number of factors would tend to reduce gross shortfalls and the need for recourse to the Scheme. The most important of these are greater reliability of export projections for various reasons, the emphasis on policy performance, the

^{1/} Study, chapter VI and Appendix IV.

offsetting of overages against shortfalls, the use of other available foreign exchange resources and the provision for feasible adjustments that would not disrupt the agreed development programmes. The Bank staff noted that the \$300-400 million estimated per annum could prove to be too high as well as too low. If too high it would reduce the cost of the Scheme in future years.

86. (b) Most members of the Group considered the Bank staff estimates a reasonable basis for consideration of the cost of the Scheme.

87. Some other members questioned both the data underlying the estimates and their amount. It was acknowledged that the basis for such estimates could not always be quantified. It was also suggested that the underlying data should be brought up to date. It was pointed out that the difference between the estimate of gross shortfalls - \$1.6 billion per year on the average for the period 1959-1963 on the basis of the best data available - and the cost estimate of \$300-400 million per year on the average was very large. It was also pointed out that modest errors either in the estimate of the gross amount of the shortfalls or in the deductions made from them in order to arrive at the estimates of cost, might significantly affect the latter. It was further pointed out that the method of making these deductions could not by their nature be precise and that, since there were numerous deductions, errors in some might cancel out errors in others. It was argued that an increase in a number of countries eligible for assistance under the Scheme would probably result in claims on it larger than those foreseen by the Bank staff. On the other hand, an increase in the number of successful commodity arrangements and improvement in data and projections would probably have the opposite effect.

88. (c) It was widely agreed that the Bank staff's estimate of \$300-400 million per year provided the basis for arriving at a figure at which the Scheme might reasonably be expected to operate successfully in the initial period. It was also widely agreed that the Scheme should have a fixed amount of resources at its disposal determined on the basis of this estimate and must be managed within this limit.

(x) Rationing

89. (a) The Scheme is based on the assumption that the Agency would have enough funds to achieve its objectives, but some provision would have to be made for it to be able to ration its resources if they proved inadequate, e.g. by setting a maximum commitment vis-à-vis each eligible country or by limiting assistance to certain countries meeting special criteria.

90. (b) The goal of 100 per cent financing of unexpected export shortfalls of a disruptive nature was felt to be desirable. It was pointed out, however, that such coverage would not be possible if available resources were less than eligible claims. It would therefore be prudent to provide against the possible need to ration the Agency's disbursements. It was suggested, however, that although rationing might be considered as an emergency measure, its possible use should not enter into calculations of the resources required for the Scheme. Rationing might take one of the following forms:

- (i) a pro rata system whereby a country's share in total eligible shortfalls would determine its share in total disbursements by the Agency. It was recognized that this system might encounter difficulties in ascertaining, at a given moment, all the actual and potential shortfalls of a given period;
- (ii) rationing on the basis of needs, as reflected, say, in per capita income; and
- (iii) rationing according to the ability of countries to withstand the disruptive effects of shortfalls, taking account of their reserve positions. It was suggested that any system of rationing should be as automatic in its application as possible.

91. These are only three illustrations of possible systems of rationing. Many others could be envisaged.

92. (c) It was generally agreed that it was neither necessary nor desirable, at this stage, to attempt to lay down rules for rationing, should the need arise.

(xi) Financial administration

93. The Group noted one or two other points which are relevant to the management of its resources by the Agency. The first relates to the call-up of contributions pledged for the total plan period. It was noted that governments would probably not wish to provide funds (which would no doubt be called up on a pro rata system) before they were required and would no doubt also wish to limit the amount which they provide in any one year of the period. The Agency, for its part, would wish to husband its resources so that it did not spend too much in the early years of the plan period while, on the other hand, it would need a reasonable degree of flexibility. It was noted that difficulties might arise in reconciling the need for such flexibility with the budgetary procedures of certain donor countries and that these would require further study.

94. It was noted moreover that very heavy claims in any particular year might leave the Agency with insufficient funds to deal adequately with claims arising later on. It was suggested that this difficulty might be met by the Agency making a partial payment on claims arising early, if this difficulty seemed likely to occur, and making a final assessment on all claims together at the end of the year.

95. It was agreed that no firm conclusion need be reached at this stage on these points. These and other questions of financial administration would have to be settled when detailed arrangements for administering the Scheme were discussed.

96. One member stated its view that multilateral arrangements for providing assistance should include adequate safeguards designed to take account of the problems of donor countries which may be experiencing balance of payments difficulties.

97. Another view expressed was that such safeguards should take particular account of the position of developed countries whose exports consist mainly of primary products.

98. It was noted that the implications of any such safeguards as regards the availability of the resources of the Agency would require further consideration, particularly if they were to be invoked in other than serious cases.

Chapter III

THE AGENCY

99. The recommendation contained in Annex A-IV.18, Part A, of the Final Act of the first conference states that a scheme for supplementary finance should be administered under the International Development Association. The Study does not address itself to the question of the administering Agency. However, the Study envisages close co-operation among the Agency, the Bank and the IMF, regardless of the identity of the Agency carrying out the Scheme.

100. There was general agreement in the Group that the creation of a new Agency for the administration of the Scheme would be unnecessary, uneconomic and would create considerable complications, and that among the existing international agencies the Bank group would be the most appropriate. It further agreed that the Scheme should be administered in close co-operation with the IMF. The specific arrangements which would be necessary would require further consideration.

101. It was also agreed that the largest possible number of developing countries should be eligible for participation in the Scheme, whether or not they were currently receiving assistance from the IDA. It was agreed that the question of countries not members of the IMF and the Bank required further consideration and legal advice.

Chapter IV

OTHER PROPOSALS FOR AVOIDING THE DISRUPTION
OF DEVELOPMENT PROGRAMMES

102. During the course of the discussion of the feasibility of the Scheme and its compatibility with the provisions of Part A of the recommendation contained in Annex A.IV.18 to the Final Act of the first Conference, two questions arose which were discussed by the Group, as prima facie they seemed to arise from paragraph 2(g) and (h) of its terms of reference. These questions are stated below, together with a brief commentary upon them. The commentary upon them and the discussion of them were brief because of the central importance attached to the Scheme in the terms of reference and the work of the Group.

103. The first question was: Are there other ways of achieving the purposes of the recommendation? Two were suggested in the course of discussion. They are briefly outlined below.

104. The second question was whether the Scheme and even the recommendation divert attention from the root causes of disruption. This question was raised by the representative of a country which had entered reservations to the recommendation. The view he expressed in raising this question and his answer to it are set forth below.

A.

105. It was suggested by one member that one way of dealing with the problem to which the Study addresses itself would be a simplified type of scheme, omitting export projections and any prior understanding on policy matters. Since it is generally agreed that export projections are fundamental to the Scheme, this variant would be different in kind. It was proposed that a determination as to whether the decline in export receipts was a shortfall from reasonable expectations should be made by an Agency ex post on the basis of certain established guidelines. In its decision, the Agency might compare e.g. the actual export receipts with the average of the export receipts of the two preceding years. The difference between the two figures might be defined as a shortfall from reasonable expectations and might be the starting basis for the Agency to determine the amount and term of assistance. In doing so, the Agency would have to take into account additional considerations. The Agency, after having established the amount of the shortfall, should take into account a number of considerations in order to arrive at its decision on the amount and terms of assistance. These considerations would have to include in particular:

- the cause and seriousness of the shortfall;
- the degree of possible disruption of the development programme;
- the prospective development of exports in the current and following years;
- the applicant's economic performance in general;
- the financial resources available to the Agency.

105. It was suggested that this examination should be speedy in order not to delay financial assistance; since there would already have been consultations between the country and the Agency, a reasonably fast procedure would be possible. The funds available for this purpose would be fixed. There would be a close connexion with the compensatory financing facility of the IMF and for this purpose there would be close cooperation between the Agency and the Fund, possibly in a common body.

106. The proposal described in the two preceding paragraphs did not find a wide measure of support for the following reasons:

108. This proposal envisages a largely discretionary arrangement. Without clear and objective criteria to guide the administering agency, there would be no assurance that the scheme would serve the objective of recommendation A.IV.18, i.e. preventing the disruption of development programmes resulting from unexpected export shortfalls. If the criteria for the operation of the arrangement were as vague as envisaged in the above proposal, the objectives of recommendation A.IV.18, which clearly envisaged a scheme for a specific purpose, would not be attained. In fact, prospects for potential recipient countries would be highly uncertain both as to the amount of any assistance that might be received and as to the basis on which a determination of need would be made.

109. In as far as the proposal in paragraphs 105 and 106 lays down a guideline, it is that export shortfalls should be measured by comparing the actual export receipts in any given year with the average of the export receipts of the two preceding years. Export shortfalls of this nature are normally dealt with by the short-term balance of payments support provided by the IMF, and a separate arrangement seeking to offset such export shortfalls would either be superfluous or would impinge on the traditional area of operations of the IMF. It would be inconsistent with recommendation A.IV.18 which specifies clearly that a scheme for supplementary financial measures "should aim to deal with problems arising from adverse movements in export proceeds which prove to be of a nature or duration which cannot adequately be dealt with by short-term balance of payments support". Moreover, an export norm defined as the average

level of exports during the two preceding years would not be an adequate measure of "reasonable expectations", since for most countries the normal export trend is upwards.

110. A few members of the Group, however, felt that the suggestions made in paragraphs 105 and 106 above were a reasonable response to some of the criticisms and comments made in the Group regarding the Scheme and that these suggestions therefore merited further consideration.

111. It was generally felt, however, that the proposal referred to in paragraphs 105 and 106 was outside the scope of recommendation A.IV.18 and would not adequately meet the need to which it was addressed.

B.

112. Remarks made by two representatives led to the following suggestion. If the term "reasonable expectations" were to be defined as meaning the medium-term trend of export proceeds which is currently calculated as a basis for the IMF's compensatory financing facility, it could be the basis for an alternative method of supplementary financing. Such a scheme might have the following characteristics: the Agency would at their request, examine the economic situation and performance of countries which had drawn from the IMF under its compensatory facility, or had made ordinary drawings to offset shortfalls of the same general character. The purpose of the examination would be to ascertain whether the country was making a reasonably effective effort to promote its own economic development. The examination would be based almost entirely upon continuing financial and economic consultations and surveys of the IMF, the Bank and other appropriate agencies.

113. The principal purpose of this assistance would be to extend the period of repurchase of the IMF drawings specified above, should the examination reveal that the obligation to repurchase threatened the disruption of development efforts. The Agency would also be empowered to provide drawings on terms similar to those of the drawings specified above should the country's entitlement to draw prove smaller than the amount of the shortfall. These drawings too, would be eligible for extension.

114. The Agency would be provided with a fixed amount of funds for an initial experimental period.

115. The suggestions in the three preceding paragraphs found little support for the following reasons:

116. A proposal for refinancing compensatory drawings was approved by the first Conference in its recommendation A.IV.17 which stated that member Governments of the Fund should "explore ways to secure possible refinancing of compensatory financing obligations of the developing countries in the event of a persistent shortfall in export receipts beyond the control of the country affected". Thus the Conference clearly envisaged a solution of this problem within the framework of the Fund, but did not consider that such a solution would meet the objectives of recommendation A.IV.18. Most members take the view that recommendations A.IV.17 and A.IV.18 have different, though complementary, objectives.

117. The principal purpose of the suggestion in paragraph 113 would be the provision of general balance-of-payments support through the refinancing of Fund drawings, rather than meeting shortfalls from export expectations, however defined. The basic purpose of the IMF facility is to smooth out export fluctuations, so that the very definition of the trend adopted by the IMF is such as to make it likely that shortfalls will be of brief duration. As the IMF pointed out in its second report on compensatory financing, "calculations covering 48 countries show that almost 50 per cent of all shortfalls with respect to a norm defined as above^{1/} last only one year, nearly 95 per cent no more than two years, and 96 per cent no more than three years" (p.6 of the second IMF report on "Compensatory Financing of Export Fluctuations"). Thus shortfalls measured in terms of a medium-term trend, as currently used by the IMF, inherently tend to reverse themselves in a short period of time, so that repurchase is usually made in three to five years. Consequently the refinancing of compensatory drawings would provide only limited assistance, and so serious case could be made out for separate arrangements limited merely to this objective, which is not that of recommendation A.IV.18, namely to maintain the integrity of development programmes in the face of export shortfalls.

118. Furthermore, refinancing on a short- to medium-term basis is always possible even under the existing IMF facility for compensatory financing. To quote the second IMF report on compensatory financing:

"While there is no specific provision in the Compensatory Financing Decision of 1963 for refinancing of compensatory drawings, refinancing on a short-term to medium-term basis would, in effect, be possible in the circumstances that appear to be envisaged in the UNCTAD recommendation, viz., in the case where at the time when a repurchase falls due in the

^{1/} The moving average for a five-year period.

fourth or fifth year following a compensatory drawing there is a shortfall in export receipts beyond the control of the affected country. The repurchase would restore the compensatory financing facility pro tanto, and if at that time an export shortfall of the type described persisted, the member would be in a position to apply for a new drawing under this facility. Moreover, when a repurchase obligation contributes to a member's temporary balance-of-payments difficulties, it would be possible for the Fund, in appropriate circumstances, to agree to an ordinary drawing at the time of the compensatory repurchase." (p.27)

119. It was noted that further details would be required as to the amount of resources to be provided and the terms on which aid for refinancing would be given.

120. A few members thought that the suggestions set forth in paragraphs 113 to 115 merited further consideration.

121. It was generally felt, however, that the proposal contained in paragraphs 112 to 114 would not adequately meet the aims of recommendation A.IV.18.

C.

122. In the view of one of the members of the Group, any scheme based on the idea of compensation for shortfalls in export receipts cannot, by definition, be an effective solution to the instability and inadequacy of the export receipts of developing countries. In the view of this member, the effort to find a purely financial solution to problems which arise because of the poor organization of trade relations between industrialized and developing countries is certain to fail to the extent that it is addressed to the symptoms and not to the root causes of the difficulties it is intended to resolve, unlike an effort to organize the markets for primary products.

123. This member also emphasized that the implementation of a system of supplementary finance would probably delay the negotiation of a system of price stabilization. Such a system would undoubtedly require a certain discipline on the part of the countries concerned, both in production and trade, but it would help to promote the growth of developing countries by assuring them of stable and remunerative prices.

124. In addition, this member expressed grave doubts about the possibility of securing without difficulty from developed countries which would have agreed to pay the costs of supplementary finance, an agreement to undertake the financial obligations that would be required by a system of market organization. In these circumstances, no real advantage would accrue to the developing countries, which would not receive any significant increase in aid and which would continue to bear the burden of the deterioration of their terms of trade.

125. In that member's opinion, an initiative in the field of supplementary finance would delay the work undertaken by the IMF and the Bank in accordance with the resolution on price stabilization adopted at Rio de Janeiro. In a large part, the possibility of providing producers of raw materials with greater stability of prices and a higher level of export receipts would depend upon this work.

126. The suggestions in paragraphs 122 to 125 found little support, for the following reasons:

127. Notwithstanding extensive exploration of this matter over a period of several years, the proposal for "market organization" has yet to be precisely defined. It is to be hoped that the studies to be undertaken by the Bank and the IMF in consequence of the resolution adopted at Rio de Janeiro will enable proposals to be put forward for action in this field, but it was not suggested that this should be taken as grounds for postponing action on the supplementary financing scheme under consideration in UNCTAD, and it is doubtful whether the resolution would have been adopted if this interpretation had been placed on it at the time.

128. It has, moreover, never been suggested that a system of market organization could be applied to all commodities exported by developing countries, or that the commodities to which it was applied would not undergo any unforeseen variation in export volume or in prices. It will therefore be apparent that "market organization", however defined, could not eliminate the problem of disruption of development due to unexpected export shortfalls.

129. There was little support for the view that supplementary financing would compete for resources with a system of market organization: it was held, rather, that the contrary was true and that supplementary financing and a system of market organization would tend to reinforce one another.

130. In so far as it proved possible to stabilize the prices of certain commodities, this would assist the scheme of supplementary financing by reducing potential claims upon its resources.

Chapter V

ORGANIZATIONAL MATTERS

Opening of the session

131. The session was opened on 30 October 1967 by Mr. M. Mermolja (Yugoslavia), Chairman of the Group.

Adoption of the agenda

132. The provisional agenda circulated before the session (TD/B/C.3/AC.3/19) was adopted unchanged and is reproduced below.

1. Adoption of the agenda
2. Further consideration of supplementary financial measures
3. Adoption of the report of the Intergovernmental Group on Supplementary Financing to the second session of the United Nations Conference on Trade and Development
4. Other business.

Attendance

133. The representatives of the following countries attended: Argentina, Brazil, Ceylon, Federal Republic of Germany, France, Ghana, India, Japan, Poland, Sweden, United Arab Republic, United Kingdom of Great Britain and Northern Ireland, United States of America, Yugoslavia. Observers for the following countries attended the session: Algeria, Australia, Austria, Canada, Chile, China, Colombia, Denmark, Finland, Guatemala, Hungary, Iraq, Israel, Italy, Netherlands, New Zealand, Nigeria, Norway, Philippines, Republic of Korea, Republic of Viet-Nam, Romania, South Africa, Spain, Switzerland, Trinidad and Tobago, Tunisia, Turkey, Uruguay. Representatives of the International Bank for Reconstruction and Development, the International Monetary Fund, the Organization for Economic Co-operation and Development, the Permanent Secretariat of the General Treaty on Central American Integration and the International Chamber of Commerce attended the session.

134. The list of participants is reproduced in the Annex to this report.

Organization of work

135. The Intergovernmental Group had before it the following documents:^{1/}

- TD/B/C.3/41-TD/B/C.3/AC.3/16 - Intergovernmental Group on Supplementary Financing, Report on its first session
- TD/B/C.3/44-TD/B/C.3/AC.3/17 - Intergovernmental Group on Supplementary Financing, Report on its second session
- TD/B/C.3/AC.3/18 - Trade Policy Toward Low-Income Countries - Note by the Secretary-General of UNCTAD
- TD/B/C.3/AC.3/21 - Statement by Dr. Raúl Prebisch, Secretary-General of UNCTAD, at the twenty-eighth meeting of the Intergovernmental Group on Supplementary Financing on 30 October 1967.

^{1/} In addition to the material submitted at the first and second sessions which was relevant to the deliberations at the third session.

ANNEX

List of participants

MEMBERS

ARGENTINA

Representative: Mr. Horacio ALONSO

Alternate representative: Mr. Jesús SABRA

BRAZIL

Representative: Mr. Marcelo RAFFAELLI

Alternate representatives: Mr. Fábio Antonio da SILVA REIS

Mr. Paulo Roberto BARTHEL-ROSA

CEYLON

Representative: Mr. R.C.S. KOELMEYER

FEDERAL REPUBLIC OF GERMANY

Representative: Mr. Helmut KOINZER

Alternate representatives: Mr. G.A. JOHNE

Mr. G. SCHULZ

Mr. R. SCHMIDT

FRANCE

Representative: Mr. S. ALLAIN

Alternate representatives: Mr. C. BEAURAIN

Mr. J-X. CLEMENT

GHANA

Representative: Mr. J.A. KUNTOH

Alternate representative: Mr. M.Y. ASOMANING

INDIA

Representative: Mr. B.N. SWARUP

Alternate representative: Mr. V.C. SHAH

JAPAN

Representative: Mr. Sashichiro MATSUI

Advisers: Mr. Shozo KADOTA

Mr. Masatochi OHTA

Mr. Toshisada UCHIDA

Mr. Yasuo HAYASHI

POLAND

Representative: Mr. Jerzy BILINSKI
Alternate representative: Mr. Zdzislaw REGULSKI

SWEDEN

Representative: Mr. L. KLACKENBERG
Alternate representatives: Mr. J.L. MYRSTEN
Mr. L.E.R. ANELL
Advisers: Mr. B. KJELLEN
Mr. B. WRANGMARK

UNITED ARAB REPUBLIC

Representative: Mr. Hussein Kamel BADR
Alternate representatives: Mr. Said T. HARB
Mr. Hassan S. ABDEL-AAL

UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND

Representative: Mr. J. MARK
Alternate representatives: Mr. J.P. HAYES
Mr. P.H.R. MARSHALL
Mr. P.S. MCLEAN

UNITED STATES OF AMERICA

Representative: Mr. Jo W. SAXE
Advisers: Mr. Paul BOEKER
Mr. Hal F. REYNOLDS
Mr. Paul E. MANHEIM

YUGOSLAVIA

Representative: Mr. M. MERMOLJO
Alternate representatives: Mr. R. DODIC
Mrs. N. ZIVANOVIC

Observers

ALGERIA

Observers: Mr. M.L. ALLOUANE
Mr. O. BENZITOUNI

AUSTRALIA

Observer: Mr. J.R. SHORT

AUSTRIA

Observer: Mr. Anton ZEMBSCH

CANADA

Observers: Mr. H.J. HODDER
Mr. L. HOUSER

CHILE

Observer: Mr. Carlos de COSTA-NORA

CHINA

Observer: Mr. HUANG Yen-chao

COLOMBIA

Observers: H.E. Mr. A. GVIEDO
Mr. L. LOPEZ GUEVARA

DENMARK

Observer: Mr. E. Hubertz CHRISTENSEN

FINLAND

Observer: Mr. Esko LIPPONEN

GUATEMALA

Observers: Mr. Alberto DUPONT-WILLEMIN
Mr. Alberto Luis Enrique DUPONT-WILLEMIN

HUNGARY

Observer: Mr. László AKAR

IRAQ

Observer: Mr. T. PACHACHI

ISRAEL

Observer: Mr. Moshe MEIRAV

ITALY

Observer: Mr. A. ZODDA

NETHERLANDS

Observer: Mr. A. JACOBVITS DE SZEGED

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NEW ZEALAND

Observer:

Mr. N.H.S. JUDD

NIGERIA

Observer:

Mr. M.T. ADEBANJO

NORWAY

Observer:

Mr. Kjell-Martin FREDERIKSEN

PHILIPPINES

Observers:

Mr. J.U. FERNANDEZ
Mr. M.S. AGUILLON

REPUBLIC OF KOREA

Observer:

Mr. Dong Ik LEE

REPUBLIC OF VIET-NAM

Observers:

Mr. LE VAN LOI
Mr. PHAM VAN TRINH

ROMANIA

Observer:

Mr. Ion PAH

SOUTH AFRICA

Observer:

Mr. A.J.W. ROODT

SPAIN

Observers:

Mr. José María ALVAREZ DE EULATE
Mr. Francisco ALONSO
Mr. Roberto BERMUDEZ

SWITZERLAND

Observer:

Mr. Arthur DUNKEL

TRINIDAD AND TOBAGO

Observer:

Mr. M.F. CLAXTON

TUNISIA

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GENERAL TREATY ON CENTRAL
AMERICAN INTEGRATION

Mr. Eduardo PALOMO

Non-governmental Organization

INTERNATIONAL CHAMBER OF COMMERCE

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Mr. Friedman



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Distr.
GENERAL

TD/38*
3 November 1967

United Nations Conference on Trade and Development

ORIGINAL: ENGLISH

Second session
New Delhi, India
1 February 1968
Agenda item 9

TRENDS AND PROBLEMS IN WORLD TRADE AND DEVELOPMENT

CHARTER OF ALGIERS

Note by the Secretary-General of UNCTAD

The attached document adopted at the Ministerial Meeting of the Group of 77 on 24 October 1967 is circulated at the request of the delegation of Algeria.

The document is circulated in connexion with item 9 of the provisional agenda of the Conference. However, as can be seen from the headings of the paper it is also related to other items of the provisional agenda.

* Two annexes to this document, containing the reports of the four Main Committees of the Ministerial Meeting, and the section on organizational matters (agenda, list of officers and participants, etc.), will be issued as an addendum as soon as available.



MM/77/I/20
30 October 1967
Original: ENGLISH

Ministerial Meeting of the Group of 77

CHARTER OF ALGIERS

Adopted by the Ministerial Meeting
of the Group of 77 on 24 October 1967

CHARTER OF ALGIERS

The representatives of developing countries, assembled in Algiers in October 1967 at the Ministerial Meeting of the Group of 77, united by common aspirations and the identity of their economic interests, and determined to pursue their joint efforts towards economic and social development, peace and prosperity,

Having reviewed the work of the international community for economic progress since the adoption of the Joint Declaration of the 77 Developing Countries at the conclusion of UNCTAD I in 1964,

Have decided to chart a common course of action as conceived in the African Declaration of Algiers, the Bangkok Declaration of Asian countries and the Charter of Tegucigalpa of Latin American countries,

Deem it their duty to call the attention of the international community to the following facts:

I

The lot of more than a billion people of the developing world continues to deteriorate as a result of the trends in international economic relations;

The rate of economic growth of the developing world has slowed down and the disparity between it and the affluent world is widening;

While the developed countries are adding annually approximately 60 dollars to the per capita income of their people, the average increase of per capita income in the developing world amounts to less than 2 dollars per annum;

The share of the developing countries in total world exports declined from 27 per cent in 1953 to only 19.3 per cent in 1966. In the first half of the 1960's total world exports grew at an average annual rate of 7.3 per cent and exports of developing countries, excluding oil exports, grew at an average rate of 4 per cent only. While the value of exports of manufactures from industrial countries increased between 1953/54 and 1965/66 by 65 billion dollars and from socialist countries by 10 billion dollars, the increase from developing countries amounted to only 3 billion dollars;

The purchasing power of exports from developing countries has been steadily declining. In the mid-1960's the developing countries have been able to buy, for a given volume of their traditional exports, one-tenth less imports than at the beginning of this period. The loss in purchasing power amounted annually to approximately 2½ billion dollars, which represents nearly half of the flow of external public financial resources to developing countries;

This has aggravated the problem of the increasing indebtedness of developing countries. The external public debt alone has increased from 10 billion dollars in 1955 to 40 billion in 1966. While the debt service payments averaged half a billion dollars annually in the mid-1950's, these have already increased to 4 billion dollars and may offset the entire transfer of resources before the end of this decade if present trends continue; they already equal the entire amount of grants and grant-like contributions;

Although modern technology offers developing countries great possibilities to accelerate their economic development, its benefits are largely by-passing them due to its capital and skill intensive nature, and is drawing away from them such limited skills as are developed;

The virtual stagnation in the production of foodstuffs in developing countries, in contrast with the rapid increase in population, has aggravated the chronic conditions of under-nourishment and malnutrition and, combined with the distortion of production and trading patterns by artificial means, threatens to give rise to a grave crisis.

II

The concern over these economic and social trends and the joint efforts of the developing countries to correct them have progressively led the international community to embark on a series of initiatives culminating in the Final Act adopted in 1964 by UNCTAD I; however, the promise held out by the Final Act has not been realized. In fact, in spite of the provisions of the Final Act of UNCTAD I:

- no new commodity agreement on primary products of interest to developing countries has been concluded;
- the standstill has not been observed by the developed countries and they have increased the degree of protection in many of those agricultural products in which developing countries are more efficient producers;

- while the average prices for primary products exported from developing countries have decreased by 7 per cent since 1958, those for primary products exported from developed countries increased by 10 per cent in the same period;
- heavy fiscal charges continue to be levied on products of export interest to developing countries;
- the proliferation and promotion of synthetic substitutes in developed countries has resulted in shrinking markets and falling prices for competing natural products produced by developing countries;
- insufficient progress has been made by developed countries in dismantling import tariffs on tropical products without prejudice to the interests of certain developing countries;
- little or no progress has been achieved in the relaxation of quota restrictions that are applied particularly to industrial products imported from developing countries; nor did the situation improve for some temperate zone products whose access to the developed countries is governed by restrictive measures and policies applied by the developed countries;
- the implicit discrimination in tariff policies towards developing countries has been further intensified as a result of the process of economic integration among some developed countries and also as a consequence of the Kennedy Round of negotiations;
- no progress has been made by developed socialist countries on the recommended transferability of credit balances held with them by developing countries;
- the wide disparity between domestic selling prices of goods imported by socialist countries from developing countries and the import prices of such goods creates unfavourable conditions for increases in consumption and import of such goods from developing countries;
- in spite of the unanimously agreed target of 1 per cent of national income of financial resources to be provided to developing countries, actual disbursements have levelled off in absolute terms and declined as a proportion of gross national product of developed countries. While in 1961 the flow of development financing to developing countries amounted to 0.87 per cent of gross national product of developed countries, it came down to 0.62 per cent in 1966;

- with a few notable exceptions, the terms and conditions of development finance are becoming more and more onerous; the proportion of grants is declining; interest rates are increasing; repayment periods are shortening and development loans are becoming increasingly tied;
- discriminatory practices and arrangements in the field of shipping and increasing freight rates have aggravated further the balance-of-payments position and hindered the effort to promote the exports of developing countries.

III

The international community has an obligation to rectify these unfavourable trends and to create conditions under which all nations can enjoy economic and social well-being, and have the means to develop their respective resources to enable their peoples to lead a life free from want and fear.

In a world of increasing inter-dependence peace, progress and freedom are common and indivisible. Consequently the development of developing countries will benefit the developed countries as well.

Developing countries reiterate that the primary responsibility for their development rests on them.

Developing countries are determined to contribute to one another's development.

However, a fuller mobilization and more effective utilization of domestic resources of developing countries is possible only with concomitant and effective international action.

Traditional approaches, isolated measures and limited concessions are not enough. The gravity of the problem calls for the urgent adoption of a global strategy for development requiring convergent measures on the part of both developed and developing countries.

The establishment of UNCTAD and the dialogue which has taken place within it constitute a step towards a new and dynamic trade and development policy. What is needed now is to move from the stage of deliberation to the plane of practical action.

Developing countries expect that UNCTAD II will concentrate on a common endeavour for accelerated economic and social development. The agreement which has recently emerged on the basic issues to be negotiated reflects the general feeling in this respect.

To this end the representatives of developing countries at the Ministerial Meeting of the Group of 77 have considered carefully the present state of affairs and suggest the following programme of action as the most urgent and immediate step to be taken by UNCTAD II.

A. COMMODITY PROBLEMS AND POLICIES

1. Commodity Policy

(a) Commodity arrangements

- (i) Commodity problems should, where appropriate, be dealt with by international commodity arrangements negotiated on a commodity-by-commodity basis;
- (ii) Producing developing countries should consult and co-operate among themselves in order to defend and improve their terms of trade by effective co-ordination of their sales policies;
- (iii) A Cocoa Agreement should be concluded before the end of 1967 and an Agreement on Sugar early in 1968;
- (iv) Commodity arrangements for oil seeds and vegetable oils, bananas, rubber, tea, sisal and hard fibres should be concluded at the earliest possible date;
- (v) Appropriate action should be taken on an urgent basis in respect of iron ore, nickel, tobacco, cotton, wine, citrus fruit, manganese ore, pepper, mica, shellac and tungsten.

(b) Buffer stocks

Buffer stock techniques as a short-term measure for market stabilization should, where appropriate, be one of the methods adopted for international commodity arrangements, and international financing institutions and developed countries should participate in their pre-financing, while with regard to its regular income producing and consuming countries should devise a formula ensuring an equitable distribution of costs.

(c) Diversification programmes

Developed countries and the appropriate international financial institutions should make available additional financial and technical assistance to developing countries, including specific funds, in order to facilitate the carrying out of diversification programmes, highest priority being given to diversification in the programmes on inter-regional, regional and sub-regional levels in the process of trade expansion and economic integration among developing countries. These specific funds for diversification should be one of the features of commodity agreements.

(d) Pricing policy

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.

2. Trade liberalization

(a) Standstill

No new tariff and non-tariff restrictions should be introduced by developed countries and those introduced since UNCTAD I should be eliminated by 31 December 1968.

(b) Removal of barriers

- (i) All restrictions and charges applied by developed countries to primary commodities including semi-processed primary products originating exclusively from developing countries should be removed;
- (ii) A programme of specific commitments should be elaborated with a view to eliminating tariff and non-tariff barriers, including duties and revenue charges, on all products;
- (iii) Pending the elimination of internal duties and revenue charges a system of partial refund should be introduced to lead progressively on an annual basis to full refund;
- (iv) The tariff reductions offered during the Kennedy Round of negotiations on primary products of export interest to developing countries should be implemented without phasing and without reciprocity in favour of all developing countries.

(c) Preferences

The representatives of the developing countries at the Ministerial Meeting of the Group of 77, (i) bearing in mind the desire expressed by all members of the Group of 77 to apply recommendation A.II.1, Section II, paragraph 3 and 6 concerning the elimination of preferences, adopted unanimously at UNCTAD I, and noting that the abolition of preferences requires that the developed countries grant equivalent advantages to the countries which at present enjoy such preferences; (ii) noting that the developed countries have not so far taken effective measures for the implementation of this recommendation; (iii) considering that, in the case of certain commodities, the special preferences in force could be reduced or even abolished through international agreements:

Decided to request the Secretary-General of UNCTAD and the regional groups to undertake studies, commodity-by-commodity and country-by-country on the effect of the abolition of the special preferences in force and the steps necessary to ensure that countries which at present enjoy such preferences receive advantages at least equivalent to the losses resulting from abolition.

(d) Minimum share of markets

- (i) Where products of developing countries compete with the domestic production of developed countries, the latter should allocate a defined percentage of their consumption of such products to developing countries; in any case, a substantial share of any increase in domestic demand for primary commodities in the developed countries should be reserved for the output of the developing countries. This allocation should be arrived at on a country-by-country and commodity-by-commodity basis, through multilateral negotiation; developed countries should agree to establish maximum ratios of domestic production so as to guarantee to developing countries adequate conditions of access for their exports;
- (ii) The developed countries should adopt measures to discourage uneconomic production of commodities which compete with those originating from developing countries and should abolish subsidies on such competing products.

(e) Surpluses and reserve stock disposal

The existing machinery for consultation on surplus disposal should be widened and reinforced and suitable machinery should be established, where such arrangements do not exist, in order to ensure that disposal of production surpluses or strategic reserves does not result in the depression of international prices, and does not adversely affect the exports of developing countries or the intra-regional trade and agricultural development of developing countries and the position of developing countries receiving those surpluses as assistance.

(f) Use of escape clauses

Objective criteria should be adopted under a multilateral institutional arrangement for identifying situations on which restrictions are applied by virtue of safeguard clauses and the unilateral application of restrictions should be avoided.

3. Synthetics and substitutes

- (i) Special measures in the field of finance, technical assistance and marketing, including financing of research, abolition of subsidies and granting of preferences should be taken to improve the competitive position of natural products of developing countries that are affected by the competition of synthetics and substitutes originating from developed countries;
- (ii) The provision of Special Principle Nine of the Final Act of UNCTAD I on dumping should be implemented with special reference to the marketing of synthetic products.

B. EXPANSION OF EXPORTS OF MANUFACTURES AND SEMI-MANUFACTURES

1. Principles for a general system of preferences

The following principles should be adopted in order to implement a general system of preferences. They should be accepted simultaneously as complementary and indivisible measures.

- (a) At UNCTAD II there should be negotiations which should lead to the conclusion of an agreement on a general system of tariff preferences on a non-discriminatory and non-reciprocal basis. The agreement should provide for unrestricted and duty-free access to the markets of all the developed countries for all manufactures and semi-manufactures from all developing countries;
- (b) Without prejudice to the general provisions contained in paragraph (a) above, the escape clause actions as envisaged below may be taken; in particular special treatment may be granted by developed countries to the less developed among the developing countries;
- (c) The manufactures and semi-manufactures covered by the preferential system should include all processed and semi-processed primary products of all developing countries;
- (d) All developed countries should grant such preferences to all developing countries;
- (e) The form of the escape clause action, the objective criteria which should govern the application of escape clause action by developed countries and the procedures that should be followed in such cases must be agreed upon internationally. Such action must however be temporary in nature and be subject to international consultation, approval and review;
- (f) The preferential system must be conceived in such a way as to make it possible for the least advanced among developing countries to share in its benefits. Accordingly any time limits of the system should be flexible so that countries at present in very incipient stages of developing will also be able to reap its advantages. Escape clause actions limiting or excluding particular exports should not apply to the less competitive products from less advanced countries. Specific commitments should be taken for technical and financial assistance in the establishment of export oriented industries in least advanced countries, with a view to markets both in the developed world and in other developing countries;
- (g) The new system of general preferences should ensure at least equivalent advantages to developing countries enjoying preferences in certain developed countries to enable them to suspend their existing preferences on manufactures and semi-manufactures. From the beginning, provisions should be incorporated in the system of general preferences, for the developed countries to redress any adverse situation which may arise for these developing countries as a consequence of the institution of the general system of preferences;

- (h) In order to achieve the objective of the general preferential system the arrangement should last long enough to enable all developing countries to benefit from it. Initially the arrangement should last for 20 years and should be reviewed towards the end of this initial period. In any event the preferential treatment should not thereafter be abruptly terminated;
- (i) In order that the general system of preferences makes adequate contribution to the balance of payments of the developing countries, the developed countries should not reduce their aid to them or nullify or impair the benefits of preferences through other measures.
- (j) Suitable machinery within UNCTAD should be established to supervise and ensure the effective implementation of a general system of preferences in accordance with the foregoing paragraphs.
2. Liberalization of trade in manufactures and semi-manufactures
- (a) The developed countries should implement immediately, without phasing, in favour of all developing countries, concessions agreed on during the Kennedy Round of trade negotiations, on products of export interest to the latter countries;
- (b) The developed countries should state at UNCTAD II that all concessions agreed on during the Kennedy Round of trade negotiations on products of export interest to developing countries would be extended at the time of implementation to all developing countries whether or not members of the GATT, without reciprocity;
- (c) At UNCTAD II both developed and developing countries should on the basis of the evaluation of the Kennedy Round being prepared by the UNCTAD and GATT secretariats and those prepared by governments themselves identify all outstanding issues for further negotiations. The principles of the most-favoured-nation treatment and reciprocity should in no way be introduced in these negotiations. In these negotiations all developing countries should be allowed to participate if they so desire;
- (d) The developed countries should implement the agreements reached at UNCTAD I on liberalization for manufactures and semi-manufactures of export interest to the developing countries, particularly as regards the principle of the standstill;
- (e) The developed countries should establish at UNCTAD-II a concrete programme for the removal of quantitative restrictions at an early date, particularly those which are applied by them inconsistently with their international obligations, and also give an undertaking not to renew existing restrictions or impose new quantitative restrictions, nor adopt any other measures having equivalent effects on products of export interest to developing countries.

- (f) Developed countries should supply all relevant information to the UNCTAD secretariat in respect of non-tariff barriers other than quantitative restrictions applied in the markets of the developed countries for examination at UNCTAD II;
- (g) Objective criteria should be established for the application of restrictions to trade in products from developing countries under escape clauses relating to "market disruption" and other "special circumstances" applied by developed countries, so that such situations may be defined, provisions may be laid down specifying what measures restrictive of trade can legitimately be applied when such a situation is found to exist, and compensation may be fixed which corresponds to the loss or damage suffered by the developing countries.
- Multilateral consultative and supervisory machinery should be set up for that purpose. The developed countries should undertake measures for anticipatory structural readjustments and other measures for bringing about such changes in their production patterns as to eliminate the possibility of resorting to restrictive trade policies or escape clause actions on ground of market disruption in relation to products of export interest to developing countries in order to establish a new international division of labour that would be more equitable. The developed countries should not promote the development in their territories of industries of particular interest to the developing countries. In those cases where developed countries have invoked escape clauses on grounds of market disruption, they should make the appropriate domestic structural adjustments;
- (h) The developed countries should take appropriate action to carry out re-adjustments in the tariff nomenclatures of their countries so as to facilitate the granting of duty-free entry on products exported by and large by developing countries;
- (i) The machinery which would be established to supervise the effective implementation of a general system of preferences should also supervise the programme for the elimination of tariff and non-tariff barriers, and the application of escape clauses, in particular any such barriers which prejudice or nullify the scheme of general preferences.

3. Trade with socialist countries

The socialist countries should grant concessions to the developing countries whose advantages are at least equivalent to the effects of preferences which would be granted by the developed countries with market economies.

The socialist countries should:

- (a) Adopt and implement measures designed to increase the rate of growth of the imports of manufactures and semi-manufactures from developing countries, and to diversify such imports in consonance with the latter's trade and development requirements;
- (b) Undertake to contribute to the maintenance of remunerative and stable prices for the exports of developing countries by the inclusion of suitable provisions in their trade agreements with these countries;
- (c) In drawing up their national and regional development plans take due account of the production and export potential in developing countries;
- (d) Abolish customs duties and other trade restrictions on goods imported from and originating in developing countries;
- (e) Eliminate the margin between the import price and the domestic selling price of the goods imported from developing countries;
- (f) Refrain from re-exporting the goods purchased from developing countries, unless it is with the consent of the developing countries concerned;
- (g) Encourage conclusion of industrial branch agreements for the supply of plant and equipment on credit to the developing countries, accepting repayment of such credits in particular with the goods manufactured by such plant in the developing countries concerned;
- (h) Multilateralize, to the extent possible, among the socialist countries of Eastern Europe, payments arrangements with developing countries to facilitate increase of imports from the latter;
- (i) Grant preferential access conditions for products originating from developing countries. These conditions should include the establishment, in their international purchasing policies, of margins of tolerance in favour of the developing countries with regard to prices and delivery terms;
- (j) Within the framework of UNCTAD to set up permanent consultative machinery through which socialist countries and developing countries may promote mutual trade and economic co-operation, and solve the problems and obstacles which may arise.

4. Trade promotion

- (a) Diversification of production of manufactures and semi-manufactures of developing countries should be carried out within the framework of a new and more equitable international division of labour between developing and developed countries;
- (b) Developed countries should abstain from harming the interests of developing countries by fostering production of commodities produced principally by developing countries, and, in that regard, they should encourage the establishment in the developing countries of export industries processing **primary commodities** produced by the latter;
- (c) Developed countries and international agencies should channel more, and more effective, technical and financial assistance in order to improve the productivity of the developing countries' industries and their competitiveness in international markets;
- (d) International co-operation should also be secured with a view to the dissemination of trade information, particularly with regard to the opportunities offered by the developed countries' markets. To that end, the developing countries should support the establishment of the joint UNCTAD-GATT trade promotion centre and obtain the financial and technical support of the developed countries for its operation. Also a close and continuing co-operation between UNIDO and UNCTAD should be promoted, on the general understanding that, as stated in General Assembly resolution 2152 (XXI), "the former shall be competent to deal with the general and technical problems of industrialization, including the establishment and expansion of industries in developing countries, and the latter with the foreign trade aspects of industrialization, including the expansion and diversification of exports of manufactures and semi-manufactures by developing countries". Furthermore, developing countries should take into ~~consideration~~ the possibility of the establishment of a single export promotion centre within the United Nations family under the auspices of UNCTAD.

C. DEVELOPMENT FINANCING

1. Flow of international public and private capital

- (a) Each developed country should comply with the target of a minimum 1 per cent of its gross national product for net financial flows, in terms of actual disbursements, by the end of the Development Decade. A separate minimum target, within this goal, and progressively increasing, should be established for the official component of aid flows, net of amortization and interest payments;
- (b) Any gaps remaining in the 1 per cent transfer each year should be made good by **additional government transfers**;
- (c) Resources of the International Development Association (IDA) should be immediately replenished and augmented;
- (d) Developed countries and financial institutions should extend and intensify their support to regional development banks;
- (e) The International Bank for Reconstruction and Development (IBRD) should be made a Development Bank for developing countries exclusively. Total repayment of current loans by developed countries in advance of maturity should be secured. Such released funds should be used to augment resources of IBRD and IDA to finance development of developing countries;
- (f) There should be no discrimination by international lending institutions against the public sector, in particular in industry;
- (g) Special consideration should be given to developing countries which have not so far received adequate international aid;
- (h) Private investments should be of permanent benefit to the host developing country. Subject to nationally-defined priorities and within the framework of national development plans, private investments may be encouraged by incentives and guarantees;
- (i) No developed countries should decrease the existing level of their aid to developing countries, especially those forms of aid granted through negotiations.

2. Terms and conditions of development finance

- (a) By 1968, the norms of lending laid down by General Assembly resolution 2170 (XXI) and the Development Assistance Committee of OECD should be reached;
- (b) Beyond a date to be internationally agreed, all development lending should be on terms currently applied by IDA. In regard to earlier loans or loans on other than IDA terms, the interest should be subsidized by governments of developed countries;
- (c) Pending the general adoption of IDA terms, there should be a considerable lowering of interest rates and a considerable increase in maturities and grace periods;
- (d) A Multilateral Interest Equalization Fund should be created to cover the interest margin between loans obtained on international capital markets and concessional development loans;
- (e) Development finance should be rapidly and progressively untied, with a view to reaching the goal of total untying by a specific date; excess costs incurred through tying should be subsidized by creditor countries; procurement in developing countries should be freely permissible, especially within the same region;
- (f) External finance should be made available both for programmes and for projects and should include local costs where necessary;
- (g) Development finance commitments should be on a continuing basis to cover plan programmes over a period of years;
- (h) Appropriate steps should be taken to improve the administration of development finance;
- (i) An intergovernmental group with equitable representation of developed and developing countries should be established to deal with all aspects of commercial credits, including suppliers' credits.

3. Problems of external indebtedness

Suitable measures should be adopted for alleviating the debt-servicing burdens of developing countries by consolidation of their external debts into long-term obligations on low rates of interest. In case of imminent difficulties, speedy arrangements should be made for refinancing and re-scheduling of loans on "soft" terms and conditions.

4. Mobilization of financial resources

Developing countries recognize that they should to the fullest extent possible consistent with smooth economic growth and social stability continue to mobilize their domestic resources for financing their development process. They recall, however, that the utilization of these resources cannot be fully effective without the necessary external assistance.

5. Supplementary financing

UNCTAD II should negotiate an agreement for early implementation of a scheme of supplementary financing on the basis of a consensus to be reached after considering the report of the Intergovernmental Group on Supplementary Financing on the World Bank study.

In no case should the scheme involve internal policy commitments which prejudice the sovereignty of any member country as defined by that country, the means for achieving this objective to be further discussed at the forthcoming meeting of the Inter-Governmental Group on Supplementary Financing and negotiated at UNCTAD II. These discussions and negotiations should take account, inter alia, of the positions expressed in the regional declarations of the developing countries.

6. Compensatory Financing Facility

The developing countries ask that:

- (a) drawings on the International Monetary Fund under the Compensatory Financing Facility should be immediately available up to 50 per cent of the countries' quotas in the Fund, and that such drawings are not subject to any conditions;

- (b) the formula for calculating shortfalls be modified, taking as the basis the exports of each of the countries concerned either during three normal years or more, preceding the payment of compensation;
- (c) due consideration should be given to refinancing debts incurred by developing countries during periods of persistent shortfalls in their export earnings, including a revision of current repurchase time limits.

7. International monetary issues

- (a) Developing countries should participate from the outset in all discussions on international monetary reform and in the operation of the new arrangements for Special Drawing Rights in the International Monetary Fund;
- (b) A link between development finance and additional liquidity should be forged as urged by the developing countries;
- (c) The developing countries are intimately concerned with the policies of international financial organizations relating to use of their resources; voting power and the improvement of machinery for balance of payments adjustments.

D. INVISIBLES, INCLUDING SHIPPING

Developing countries reaffirm the competence of UNCTAD in shipping matters.

1. International shipping legislation

- (a) Developing countries ask that UNCTAD II should include "international shipping legislation" in the work programme of the Committee on Shipping which should use such technical and expert advice as may be necessary;
- (b) In accordance with the obligations undertaken by the international community, all developed countries should give full co-operation to the UNCTAD secretariat by providing complete information for studies being carried out by it in the field of shipping including freight rates, conference practices, adequacy of shipping services, etc;
- (c) These studies should take into account the implications of technical advances in shipping in respect of the organization and structure of conferences, cost levels, rate structure and techniques of port organization and operations as well as the implications of technical advances for the expansion of merchant marines of developing countries.

2. Freight rates and conference practices

- (a) Immediate steps are needed at UNCTAD II to provide a basis for future action on freight rates which are not only continuing to rise but are still discriminatory and restrictive vis-a-vis the developing countries;
- (b) Developed countries should press freight conferences and shipowners to abolish the widespread practice of fixing special high freight rates for the transport of non-traditional products of the developing countries and to lower freight rates applied to traditional exports of the developing countries;
- (c) Developing countries ask UNCTAD II to adopt the following principles:
 - (i) the right of developing countries to take part in any freight conference affecting their maritime traffic on an equal footing with shipowners of developed countries;
 - (ii) freight conferences to have representation in developing countries;
 - (iii) publication of information, including advance publication of any proposed changes on freight rates and other cargo arrangements by freight conferences affecting the foreign trade of developing countries.

- (d) Developing countries should intensify their co-operation amongst themselves, inter alia on a regional basis, to secure maximum benefits and better bargaining positions in the field of shipping, in particular regarding freight rates.

3. Expansion of merchant marines

- (a) Developing countries affirm their unquestionable right to establish and to expand their merchant marines in the context of rising freight rates and the prospects of their foreign trade;
- (b) Developed countries and international agencies should extend financial and technical assistance to developing countries for the establishment and expansion of national and regional merchant marines and related facilities. Such assistance should include the training of personnel in the economic, managerial, technical and other aspects of shipping. Financing arrangements should be in favour of national enterprises;
- (c) All countries should recognize the right of developing countries to assist their merchant marines, including the right to reserve a fair share of the cargo transported to and from those countries;
- (d) The regulations enacted by developing countries with a view to achieving the objectives aforementioned should not be considered justification for the adoption of retaliatory or other measures by the developed countries and their shipping conferences which may have the effect of rendering ineffective the measures taken by the developing countries;
- (e) Developing countries should be enabled to make the maximum use of their ship-building industries and expand them.

4. Consultation machinery

- (a) Specific action should be taken by UNCTAD in collaboration with UNDP and the regional economic commissions to give effect to the resolution of the Committee on Shipping on the establishment of national and regional consultation machinery in various parts of the world in accordance with the provisions adopted;
- (b) Financial and technical assistance should be given to developing countries for the establishment of such machinery where necessary.

5. Port improvements

- (a) Practical measures should be devised at UNCTAD II for financing and giving technical assistance to developing countries for port development and allied works and

programmes relating to port operation, taking into account technical advances in shipping;

- (b) Measures should be devised at UNCTAD II for ensuring that savings achieved by the improvement of port facilities in shipping operations are utilized to the advantage of developing countries through reduction of freight rates in respect of the port achieving such improvement.

6. Insurance and re-insurance

- (a) Developed countries should reduce the cost of re-insurance to developing countries;
- (b) A substantial part of the technical reserves of the insurance and re-insurance companies should be retained in the countries where premium incomes arise for re-investment in those countries;
- (c) Developing countries should be technically and financially assisted in building up their own insurance and re-insurance facilities.

7. Tourism

- (a) Developed countries and financing institutions should extend credits on easy terms to developing countries for promoting tourism;
- (b) Developed countries and international credit institutions should make investments in infrastructure in tourism in developing countries;
- (c) Passenger fares to developing countries should be concessional and attractive and other facilities should be provided in order to encourage tourist traffic.

E. GENERAL TRADE POLICY ISSUES

1. Principles governing international trade relations and trade policies conducive to development

- (a) UNCTAD II should review the implementation of the principles governing international trade relations and trade policies conducive to development;
- (b) In compliance with recommendations A.I.1 and A.I.3 of the Final Act of UNCTAD I which leave open the completion of these principles, UNCTAD II may elaborate new principles. However, principles already adopted would not be subject to re-examination.

2. Trade relations among countries having different economic and social systems

- (a) The expansion of trade between developed socialist countries of Eastern Europe and developed market economy countries should not unfavourably affect the trading possibilities of developing countries but on the contrary should lead to a rising trade between them and the latter. In pursuance of this objective the socialist countries should provide in their economic development plans and trade policies measures for accelerated increase of their imports of primary commodities and manufactures and semi-manufactures originating from developing countries;
- (b) Socialist countries should also reaffirm the assurances given by them in UNCTAD I that they will refrain from re-exporting the goods purchased from the developing countries unless it is with the consent of the developing countries concerned;
- (c) Socialist countries should adopt the necessary measures to reduce the gap between import and sales prices of products originating from developing countries in order to promote the consumption of these commodities; the establishment in the import policies and trade programmes of the socialist countries of margins of tolerance with regard to prices, delivery dates and other conditions relating to exports from developing countries would greatly contribute to the increase of trade between these countries and the socialist countries;
- (d) Credit extended by socialist countries for financing public and private projects in developing countries should be adapted to the particular conditions of the countries concerned; and where possible provisions should be made for repayment by the export of the products of those or other projects;
- (e) In case of contracts, concluded between the enterprises in the developing countries and the relevant agencies in the socialist countries, due attention should be given to the periods covered by those contracts in order to enable the enterprises to plan and execute with greater efficiency their investment, production and delivery programmes.

3. Impact of regional economic groupings

- (a) Regional economic groupings of developed countries should avoid discriminating against the exports of developing countries of manufactures, semi-manufactures and of primary products, particularly temperate and tropical agricultural commodities;
- (b) The expansion of these groupings should not increase the incidence of any discrimination;
- (c) Regional economic groupings of developed countries should take measures with a view to ensuring freer access of the exports of developing countries.

4. International division of labour

A new and dynamic international division of labour should be applied whereby developed countries avoid taking protective measures affecting agricultural exports of developing countries in fields in which they are more efficient and duplicating investments already made or about to be made by developing countries in industry. Conditions should be created for industrialization in developing countries to make the fullest use of their available resources. The diversification of production of developing countries should also be carried out within a framework of a division of labour that would enable the greatest flow of trade on the one hand among developing countries and on the other hand between these countries and others.

5. The world food problem

It was agreed that, in the light of the fact that the item had only recently been introduced, consultations would be pursued within the Group of 77 with a view to adopting a common position on the world food problem for UNCTAD II.

6. Special problems of the land-locked countries

A group of experts should be established in order to carry out a comprehensive examination of the special problems involved in the promotion of trade and economic development of the land-locked developing countries, with special reference to the high costs involved in the execution of their development programmes and trade expansion programmes. In the light of this examination adequate financial and technical assistance should be extended by international financial institutions to minimize the cost of the factors involved. The international financing agencies should also give priority to such technical and financial assistance programmes as the land-locked developing countries may propose in connexion with the special problems of their trade and development and, in particular, with the development and improvement of their transport infrastructure.

7. Transfer of technology, including know-how and patents

- (a) The developed countries should encourage the transfer of knowledge and technology to developing countries by permitting the use of industrial patents on the best possible terms which will enable products manufactured in developing countries to compete effectively in world markets;

- (b) They should also promote the elimination of restrictive practices, relating to market distribution and price-fixing, which are imposed by enterprises in developed countries in granting licences for the use of patents and trade-marks in developing countries;
- (c) The developed countries should provide guidance to their industrial entrepreneurs regarding investment opportunities in the export industries of the developing countries and familiarize them with legal, political, economic and other relevant information on the situation in the developing countries.

F. TRADE EXPANSION AND ECONOMIC INTEGRATION AMONG
DEVELOPING COUNTRIES

- (a) The developing countries reaffirm that trade expansion and economic co-operation among themselves is an important element of a global strategy for development, and they are therefore determined to make their own contribution toward the fulfilment of the objectives of UNCTAD II by stepping up their efforts in this respect. Such action can in no way be regarded as a substitute for larger and more remunerative exports to developed countries or for a greater contribution by the latter countries. However, trade expansion and economic integration among developing countries raises special problems and difficulties as compared with similar processes among developed countries. Action with regard to trade barriers will therefore not be enough, but must be combined with suitable measures in other fields in particular investment matters and payments. In this connexion, the availability of appropriate external financing and technical assistance would be an important contribution for enabling developing countries to achieve more rapid progress in trade expansion and integration efforts. This international support should however be granted in a manner that would fully respect the determination of developing countries to follow their own methods of approach when expanding trade and advancing towards integration among themselves;
- (b) The developing countries will inform UNCTAD II of the efforts they are making or planning to make, in order to increase their trade and strengthen their economic co-operation, particularly in the field of inter-regional, regional and sub-regional co-operation.
- (c) Since the joint efforts of the developing countries cannot be fully successful without financial and technical aid from the developed countries, the latter should at the same time make a formal declaration of support for the developing countries' efforts at co-operation and integration, specifying the nature and the volume of financial assistance they are prepared to render to those efforts.
- (d) At UNCTAD II a special working group should be set up to study the practical problem related to:
- (i) trade expansion, economic co-operation and integration among the developing countries, including consideration of the special problems of the least developed countries;
 - (ii) the establishment or improvement of multilateral payments systems between developing countries;

- (iii) the practical measures for the implementation of an international policy which would support these joint efforts with particular reference to financial and technical assistance.

Regional or sub-regional groups of developing countries should be invited to participate in the working group.

- (e) UNCTAD II should establish a permanent Committee whose task would be to study all questions relating to trade expansion and economic integration among developing countries, with particular reference to ways and means of enabling the developing countries participating in such groupings to derive equitable benefits therefrom.

This Committee should, in particular, undertake the following activities:

- (i) The study, centralization and dissemination of information and data on the experience acquired by developing countries in dealing with specific problems of sub-regional, regional or inter-regional co-operation and integration, and the organization of symposia on such problems for national and regional officials;
 - (ii) Studies relating to the possibility of establishing export and import groupings by commodity, or by group of commodities, among developing countries
 - (iii) Studies for the improvement of the infrastructure of transport and communications among developing countries;
 - (iv) Study the possibility of establishing national and regional information and trade promotion centres in developing countries;
- (f) Consideration should be given to the establishment under the auspices of UNCTAD, and of other specialized agencies, of a special centre to train experts, particularly from developing countries, in the field of economic co-operation and integration among developing countries;
- (g) The international information and trade promotion centre which is being established under the sponsorship of UNCTAD and GATT should give due importance to the question of promoting exports among developing countries.

G. SPECIAL MEASURES TO BE TAKEN IN FAVOUR OF THE LEAST DEVELOPED AMONG THE DEVELOPING COUNTRIES

Owing to the varying stages of economic development existing among the developing countries and to the varying factors responsible for their development, the trade and financial policy measures required to accelerate the pace of economic development would differ from one developing country to another. It is therefore essential to devise a global strategy of convergent measures in order to enable the least developed among the developing countries to derive equitable benefits so that all the developing countries would gain comparable results from international economic co-operation of member countries of UNCTAD, particularly that with the developed countries.

The individual measures recommended by UNCTAD I and those that would be recommended by UNCTAD II should be viewed as components of an integrated policy of co-operation for achieving the over-all objectives of trade and expansion and accelerated development. All these measures are inter-related.

While the appropriate mix of the convergent measures required for the least developed countries cannot be determined at this stage, these measures may be devised from the spheres of:

- (a) commodity policy, including measures of financial and technical assistance for diversification programmes;
- (b) preferences in trade of manufactures and semi-manufactures;
- (c) development finance;
- (d) regional economic integration;
- (e) invisibles;
- (f) trade promotion.

With regard to commodity policy the following actions should be recommended to be taken by UNCTAD II:

- Special consideration of the need of the least developed countries in relaxing tariff and non-tariff barriers affecting access to the markets both in tropical and temperate products;
- Temporary refunds, at least in part, of revenue charges and duties on commodities of particular interest to least developed countries.

With reference to manufactures and semi-manufactures, the recommendation on the general scheme of preferences contained in this document under section B, (Expansion of exports of manufactures and semi-manufactures) should be taken into consideration and adopted. This should take place independently of the principle in virtue of which substantial advantages may be granted to the least developed among the developing countries under systems of regional or sub-regional integration; while the latter, where appropriate, attain perfection in the matter of customs duties.

For the purpose of designing special measures for the least developed countries it does not seem to be desirable or convenient to attempt an abstract general definition of such countries nor, at this stage, an a priori strict listing of such countries applicable to specific measures considered. Hence this could be better undertaken, in due course, in a form agreed upon by the developing countries.

In order to give effect to the provisions of section G, the Ministerial Meeting decides to establish a working group. The function of the working group shall be to make a special study of the arrangements to be made on the matters referred to in the third paragraph of this section.

Composition of the working group: it is agreed that each regional group shall be represented on this group by five members.

The working group shall meet at Geneva on or about 1 December 1967. It shall submit its report to the countries members of the Group of 77 not later than 15 January 1968.

Part Three

A. FUTURE ACTIVITIES OF THE GROUP OF 77

The representatives of developing countries of the Group of 77 are firmly decided to maintain and further strengthen the unity and solidarity of the group of developing countries. They agree to maintain continuous consultations and contacts in order to further that objective.

The Group of 77 should meet at the ministerial level as often as this may be deemed necessary, and in any case always prior to the convening of sessions of the United Nations Conference on Trade and Development, in order to harmonize the positions of developing countries and to formulate joint programmes of action in all matters related to trade and development. It can also meet at any other level, as required by the needs of developing countries.

In all matters relating to the preparation for Ministerial Meetings of developing countries, and, during the intervals between these Ministerial Meetings, and for the formulation of joint positions on issues within the purview of UNCTAD, the competent authority of the Group of 77 is the Group of 31 developing countries. This Group of 31 is composed of the developing countries, members of the Trade and Development Board, and should normally meet concurrently with the Trade and Development Board. For all matters related to their specific fields of activities the developing countries members of the Committee of the Board are fully competent.

The Co-ordinating Committee of the Group of 77 as established in Geneva in October 1966, should be continued until the New Delhi Conference with the following terms of reference;

- (a) to assist in making appropriate arrangements for visits of Goodwill Missions;
- (b) to transmit to Member Governments of the Group of 77 the reports of the Goodwill Missions received from the President of the Ministerial Meeting;
- (c) to undertake any other work that may be entrusted to it by the Group of 77 in Geneva.

Informal co-ordinating groups of the 77 should be established in all headquarters of the various United Nations specialized agencies.

B. GOODWILL MISSIONS

The representatives of developing countries participating in the Ministerial Meeting of the Group of 77 have decided to send high-level Goodwill Missions to countries belonging to other groupings of member countries of UNCTAD. These missions, entrusted with the task of informing and persuading, shall acquaint the respective governments of the countries to be visited of the conclusions of the Meeting so as to contribute to the creation of the best possible conditions for negotiations on the programme of action at UNCTAD II.

There will be six high-level Goodwill Missions to visit capitals of developed and socialist countries, composed of at least one, and if possible, two special envoys accredited by Heads of States from each of the three regional groups within the Group of 77. Each mission will be headed by one of its members so as to ensure that each regional group provides two mission leaders.

Necessary steps will be taken immediately to contact the respective Governments to fix suitable dates for the visits of the missions in such a way as to ensure the completion of all visits before the end of November 1967.

Each mission will submit its report to the President of the Ministerial Meeting who, in his turn, in co-operation with the Co-ordinating Committee, will forward these reports to all the developing countries members of the Group of 77 as soon as possible.

The President of the Ministerial Meeting of the Group of 77 was requested to present the Charter of Algiers to the General Assembly of the United Nations and to the Secretary-General of the United Nations. The President of the Ministerial Meeting, in his turn, invited the Rapporteur General of the Ministerial Meeting and the Chairmen of the four main Committees of the Meeting to accompany him on this mission. He also invited the Vice-Presidents of the Ministerial Meeting to accompany him if their duties permit them to do so.

inv. Friedman

Distr.
RESTRICTED

TD/B/C.3/AC.3/CRP.51
13 November 1967

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Committee on Invisibles and Financing
related to Trade
Intergovernmental Group on Supplementary Financing
Third session
Geneva, 30 October 1967

SUPPLEMENTARY FINANCIAL MEASURES

Draft Final Report of the Intergovernmental Group
on Supplementary Financing

Vice-Chairman-cum-Rapporteur: Mr. J.W. Saxe (United States of America)

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Annexes:

~~√~~This document contains Chapters I, II and III of the draft report.

~~Chapter IV~~ "Other proposals for avoiding the disruption of
development programmes" is contained in document
TD/B/C.3/AC.3/CRP.49/Add.1/Rev.1

~~Chapter V~~ "Conclusions on specific problems" is being
circulated as a separate document.

~~Chapter VI~~ "Organizational matters" is contained in
document TD/B/C.3/AC.3/CRP.49/Add.4/

Chapter I

INTRODUCTION AND GENERAL ASSESSMENT

A. Introduction

The first United Nations Conference on Trade and Development adopted the recommendation contained in annex A.IV.18 to its Final Act on Supplementary Financial Measures, part A of which requested the World Bank to prepare a study of, ^{the feasibility of a Scheme} ~~and if appropriate, to draw up a scheme designed~~ to deal with, ~~the~~ problems arising from unforeseen adverse movements in export proceeds of a nature or duration which could not be adequately dealt with by short-term balance of payments support. ^{and, if appropriate, to work out such a Scheme.} In response to this recommendation the staff of the World Bank prepared a study entitled Supplementary Financial Measures (TD/B/43). The study proposed a Scheme for the provision of supplementary finance to developing countries to prevent disruption of their development programmes in consequence of unforeseen export shortfalls. The Scheme would be based on an understanding between the administering Agency and the countries concerned regarding the broad content of development plans and policies including export forecasts and the role of basic finance in their development programmes. Such a relationship between the Agency and a participating country would ensure the prompt provision of supplementary finance should the need arise. Chapter II of this report presents in detail the results of the Group's consideration of the Scheme and related matters. //

Throughout the discussions of the Group its work has been facilitated by the staff of the World Bank. In the first instance the excellent study prepared by the Bank staff served as a basis for the Group's discussions. Furthermore, as the work of the Group progressed valuable guidance was frequently provided to the Group by the Bank staff in the form of additional studies or participation in its discussions by representatives of the Bank. The Group wishes to record its appreciation for the generous assistance furnished to it by the staff of the World Bank ^{and the Fund.}

Opinions expressed in the Group are not attributed to individual members, though those from developing countries have prepared a separate Statement of their views which will be circulated to the UNCTAD as Conference document no.---

The terms of reference of the Intergovernmental Group on Supplementary Financing (annexed to resolution of the Committee on Invisibles and Financing for Trade which recommended the establishment of the Intergovernmental Group)^{1/} direct it to submit a report on the study (TD/B/43) (hereinafter referred to as "the Study" of a scheme of supplementary financial measures (hereinafter referred to as "the Scheme") presented to the Secretary-General of UNCTAD by the staff of the International Bank for Reconstruction and Development (the "Bank") (with such modifications to the Scheme as it may consider appropriate) as a means of achieving the objective set out in part A of the recommendation in annex A.IV.18 to the Final Act of the First Conference. They instruct the Group, in so doing, to pay attention to certain points: the scope of the Scheme; the form, terms, and conditions of financial assistance, the relationship between resources and requirements; the boundary between economic and political problems which may arise in the administration of any scheme; certain questions relating to its administration and to the period of time to which it shall apply. These are set out in paragraphs 2 (i) (vi) of the terms of reference. All these matters are examined in chapter II of the present report, though the sequence of treatment differs from that in which they are mentioned in the terms of reference.

The Group is also directed (under paragraph 2 (ix) of its terms of reference) to consider the status, membership and functions of the proposed Agency and its relations with other international bodies. This matter is dealt with in chapter III of this report.

It is further provided by paragraph 3 of the terms of reference that the Group may put forward suggestions of ways in which the Scheme might be financed. The estimated cost of the Scheme is discussed in chapter II of the present report. The Group has not, however, considered the question of how the responsibility for providing funds should be apportioned among contributing governments (and in particular, whether contributions should be limited to the developed countries).

Apart from being directed to report on the Study, the Group was called upon to consider certain other questions arising under paragraph 2 (vii) and (viii) of its terms of reference. Paragraph 2 (vii) directs the Group to have regard to the relationship between supplementary financial measures and other types of aid, with particular reference to the terms, conditions and the criteria of the provision of aid. Questions ~~relating~~ to these terms and conditions are discussed in chapter II of this report, as is

^{1/} Resolution adopted by the Committee on 20 April 1966 during its resumed first session (TD/B/73/Rev.1, annex A(i) and approved by the Trade and Development Board at its fourth session (A/6315/Rev.1, part two, para. 147).

the relationship between supplementary financial measures and the compensatory financing facility of the International Monetary Fund. This sub-paragraph necessitates, however, reference to the question of the relationship between supplementary finance and what may be termed the basic aid received by a country to help to finance its development programme. This in turn raises the question whether, and what assurance can be given that, supplementary finance will be genuinely additional to this basic aid.

Before turning to the central purpose of this report, the Group considers that some comment on these points is necessary in this introductory Chapter. On the first question, most members have argued that there must be adequate guarantees of the basic finance required for a development plan. They recognize that contributors cannot necessarily be asked to accept legally binding commitments extending over the period of the plan, but they believe that there must be sufficiently firm assurances of the levels of aid, of a kind which the present annual pledges do not provide, so that countries can embark with some measure of confidence at the beginning of a plan or of an investment programme which generates a continuing requirement for external finance over subsequent years. While the Scheme offers no new guarantee of basic aid, either directly or by implication, it does involve an understanding with the Agency as to the reasonableness of the developing country's expectation of basic aid during the period. Some members have suggested that some better degree of assurance would eventually emerge from the development of the processes of international consultation to which supplementary financial measures would contribute. Others however emphasized that long-term assurances of basic finance to individual developing countries are only in some cases now being made, that there is a substantial question whether they could be made generally available in the future and that a supplementary scheme representing only a small part of total assistance would not necessarily bring these assurances.

Recommendation A.IV.18 states that "resources for the Scheme, which would be administered under the International Development Association, should be in the form of additional commitments, prescribed in advance, for contributions to the Association". The language strictly speaking applies only to the level of contributions to IDA or by implication to whatever agency might administer the Scheme. But some members of the Group argued that the recommendation as a whole should be interpreted to mean that resources for the scheme should be additional to total aid levels. Expressing concern that resources allocated to supplementary finance might be at the expense of the normal flow of basic finance, they have emphasized that, in their view, any resources provided

under a scheme of supplementary financial measures should be net additions to the aid accorded by the contributing countries. Other members have pointed out that while the introduction of a new scheme of this kind might, indeed, be expected to increase the total flow of aid, it is in their view difficult, if not impossible, to demonstrate that the aid programme of a country has, in the event, increased by the amount of its contribution to the scheme of supplementary financial measures; or, conversely, to determine what the size of that programme would have been if no contribution to such a scheme has been made. The problem is further complicated, in the view of some members of the Group, by the need for Governments to decide the relative priority of new claims on scarce resources.

Paragraph 2 (viii) of its terms of reference directs the Group to study the comparative effects on economic development of other possible methods which might be employed for the same purpose. The Group interprets these words in a broad sense as referring to any methods which might reduce fluctuations in the prices of primary commodities exported by developing countries or deal in some measure with the effects of such fluctuations. The methods which have been mentioned in our discussions have been the negotiation of agreements governing individual commodities or the devising of some more general arrangements of the kind sometimes referred to under the term "organization of markets". With reference to questions of the former kind, several members of the Group have emphasized that supplementary financial measures ^{must} ~~should not be allowed to~~ prejudice the negotiation of individual commodity agreements. It has also been pointed out that the scheme of supplementary financial measures should be complementary to individual commodity agreements and that an increase in the number of such agreements might reduce the cost of the scheme.

One member expressed very grave doubts and reservations about the effects of a supplementary financing scheme. These doubts have to do with, among other things, the possibility of establishing a scheme of market organization.

The Group has taken note of the studies now initiated by the International Bank and the International Monetary Fund, in consequence of decisions taken at the recent meetings of their Boards of Governors. ~~XX~~ The questions mentioned ^{in previous paragraphs} ~~on pages 3 and 4 above~~ are referred to briefly in chapter IV of this report.

Throughout its work, the Group maintained the conviction that any scheme of supplementary financial measures that might be adopted would not remove the need for action in the field of international trade or the need for the provision of basic development finance, which are necessary for the expansion and diversification of the external trade of developing countries and for the acceleration of their economic growth.

B. General Assessment

Our terms of reference require us to submit a report on the Bank Staff Study - with such modifications to the proposed Scheme as we consider appropriate - as a means of achieving the objective set out in the Recommendation contained in the Annex A.IV.18 (Part A) of the Final Act of the UNCTAD. We have recorded the main points made by different Members of our Group. This report sets out our assessment of the Scheme insofar as we have been able to reach agreement.

Our conclusions appear under the various headings in our report, and are re-stated, together in Chapter V. They should, however, be supplemented by a statement of our general view of the feasibility of the Scheme.

A few members have stated that in view of unresolved questions of some importance, (and without prejudging the question whether the objectives set out in recommendation A.IV.18 should be achieved by a scheme with the characteristics of that of the Bank Staff or in other ways), they are not as yet prepared to take a position.

One member expressed the view that the Scheme would not be either a timely or a genuine solution to the basic problem - the instability and inadequacy of the export proceeds of developing countries, *which could only be dealt with through effective organization of primary commodity markets.*

All other members of the Group believe that although a number of questions, some of them important, require further consideration, the objective set out in the Part A of the recommendation can be achieved by a scheme with the essential characteristics of the Bank Staff Scheme.

Chapter II

THE WORLD BANK STAFF SCHEME

Introduction

This chapter deals with the Scheme proposed in the World Bank Staff Study^{1/} and sets out the results of the discussion of the Group under the following main headings:

- A. Basic elements
 - (i) The development programme, policy understandings and consultations
 - (ii) Export expectations
- B. The Operation of the Scheme
 - (i) Import prices
 - (ii) Overages
 - (iii) Use of reserves
 - (iv) Resources of the IMF
 - (v) Adjustments
 - (vi) Assessment of claims
 - (vii) Form of assistance
 - (viii) Terms of assistance
 - (ix) Costs
 - (x) Rationing
 - (xi) Financial administration

^{1/} The terms "the Study" and "the Scheme" are used interchangeably to designate the study prepared by the Bank Staff and the scheme for supplementary financial measures set out therein, taking into account the statements made by the Bank Staff to the Group in the course of its discussions.

Three sections have been placed under each sub-heading: section (a) gives a brief indication of the views of the Bank Staff regarding the operation of the Scheme, as evolved from the Bank Staff Study, papers presented by the Bank Staff to the Group, and their discussions within the Group; section (b) notes the main criticisms and comments expressed within the Group about features of the Scheme and presents modifications to the Scheme which have been suggested by members of the Group; and section (c) presents the conclusions which the Group or most of its members reached under each sub-heading.

A. Basic elements

(i) The development programme, policy understandings and consultations

The Scheme for supplementary finance suggested by the staff of the World Bank, as set out in the Study and as developed and clarified by the Bank staff in discussions with the Group, is designed to help to avoid the disruption of well-conceived development programmes caused by a lack of foreign exchange due to an unexpected export shortfall. The Scheme provides for effective understanding between a member country and the administering Agency on export projections and development programmes and policies. If a country acts in accordance with the agreement embodying this understanding and if actual exports are lower than agreed projections, there is a prima facie case for prompt assistance under the Scheme, provided that the country is fulfilling the understandings at the time the shortfall occurs. The assistance is to be used to allow the level of investment to be maintained and to permit any necessary adjustment in the structure of investment to take place in an orderly manner conducive to maintaining the development momentum of the country.

2. (a) The basic elements of the understanding between the Agency and participating countries are a development programme, a statement of the policies which would be applied in order to achieve its objectives and balance-of-payments projections, including export proceeds as well as other sources of foreign exchange, for the period covered by the programme. These are inter-related. They would include both the expected levels of domestic investment in principal sectors as well as expected external financing. The export projections would be a guide to the amount of the principal source of foreign exchange earnings.

These bases would enable the country to reach an understanding with the Agency about the policies it would pursue in order to achieve the objectives defined by the country.

The policy understanding, as envisaged in the Study, would be arrived at through close co-operation and exchange of views between the Agency and the country. Its formulation would be based on an objective and realistic evaluation of the member's needs and possibilities and a pragmatic assessment of the proposed measures for achieving the objectives of the development programme. In reaching a policy understanding, it is possible and advisable to make use of procedures already followed in international organizations such as the World Bank group and the International Monetary Fund.

Policies cannot be defined in general (or detailed) terms applicable uniformly to all countries. There would be necessarily an important element of judgement by the Agency. It is also necessary to reappraise and, as appropriate, to revise the policy understanding. Accordingly, the initial understanding cannot be assumed to remain unchanged during the plan period. It would be adapted to the circumstances which might arise in the course of a planning period.

The assessment of performance should be based on economic criteria, and there is no question of interference with the sovereignty of nations.

The Scheme envisages periodic reviews and consultations, in pursuance of the initial understanding, between the Agency and member countries which, ^{may be requested} in no case, ~~would~~ ^{by either but would not} take place without the concurrence of the country.

(b) The comments on these basic elements of the Scheme dealt with the following major issues: consistency between the policy understanding and the sovereignty of developing countries, the degree of comprehensiveness of the policy understanding, the relationship between the policy understanding and availability of basic finance and the frequency and timing of consultations between the Agency and developing countries.

Most members of the Group emphasized that in no case should the policy understanding in practice infringe national sovereignty. In the view of some members it might in practice, be difficult to observe this principle absolutely.

Some members also stated that the nature and extent of the obligations ^{with respect to revisions and adjustments} to be undertaken by a developing country should not be such as to lead to the risk of disruption of its development effort.

As to the coverage of the policy understanding, there were two schools of thought -- one advocating a limited policy understanding, the other a more comprehensive one. Some belonging to the first school of thought, emphasized that the coverage of the understanding should be confined to the national accounting relationships and macro-economic targets which might be contained in a development plan. The application of measures for the implementation of the plan, which would be embodied in the understanding, should be ensured through informal consultations. Another suggestion was that, in view of the residual character of assistance from the Scheme the policy understanding should be limited to the export projections and an indication of basic policies. This approach was considered all the more desirable in that the understanding would involve unnecessary duplication, for it would already have been reached, at least in certain cases, in making arrangements for basic finance. Other members argued that even if the initial understanding were limited to macro-economic targets it would be necessary to examine other matters including many questions of policy either in the process of consultation or when a claim arose, if the Agency were to operate effectively.

In the view of some, belonging to the second school of thought, the understanding could not be confined to the export sector alone because of the inter-dependence of economic sectors and policies.

Some, belonging to the second school of thought, expressed the view that the nature and content of the policy understanding should be tailored to the objectives of the scheme, and that of central importance in this connexion should be the government's commitment to good performance in the pursuit of sound policies of development. Some expressed the view that the policy understanding might well go beyond present understandings between developing countries and the IBRD/IDA or the IMF in scope and duration and that it might well lead to an increase in the influence of international institutions on the economic policies of developing countries.

Several members emphasized that the formal assumption of an obligation by a developing country to adhere to a policy understanding should be matched by a concomitant obligation - not necessarily legally binding - on the part of the donors with respect to basic finance if the whole arrangement were to be made politically acceptable to developing countries. Others suggested that it might be reasonable to suppose that at the most, as international relations in this area evolve, developing countries might receive more assurance of the availability of basic finance, a matter of vital concern to them.

Yet others expressed the view that one of the difficulties of the Scheme was that developed countries would not be able to give firm assurances that they would be able to provide basic finance over the longer term. This factor would naturally reduce the firmness of the Agency's assessment of the reasonableness of a country's expectations for basic finance over the plan period in reaching an understanding on a development programme and policies,

A few members considered that consultations might take place at the beginning of a plan period and further consultations and revisions only when an export shortfall occurred. It was further pointed out by some members that the appraisal of the programme and policies when a shortfall occurred should be in terms of adherence to the initial policy understanding, even if after the event the targets were not met.

One member suggested that countries which had not concluded a prior policy understanding with the Agency should not necessarily be excluded from the benefits of the Scheme. Such countries could still apply for supplementary assistance at the time of a shortfall, with the decision on assistance then depending upon the outcome of consultations between the country and the Agency at that time. Most of the members emphasized that prior policy understandings were one of the basic characteristics of the Scheme and that reliance on consultations after the event without a prior policy understanding would fundamentally change the Scheme and make it subject to much of the criticism mentioned in Chapter IV, section 7.

Some members envisaged the use of a "performance test" as one factor which the Agency might take into account in rationing its resources if such a necessity were to arise.

A few members, while acknowledging the basic concept of the policy understanding to be sound and constructive, questioned its feasibility in view of the burden it would impose on the Agency which would be required to work out understandings with a very large number of developing countries.

- (c) 1. It was generally agreed that a policy understanding should be part of the Scheme.
2. The scope and nature of the policy understanding require further discussion.
- (a) It was generally agreed that the policy understanding should not involve commitments which would ~~impinge~~^{infringe} the sovereignty of any member country as defined by that country.
- (b) Most members also agreed that it should include export projections and a statement of the country's basic economic policies.
- (c) It was generally agreed that it should be adapted to the circumstances of individual countries.
3. The implementation of the policy understanding (including the frequency and timing of consultations and any revisions which may be necessary) requires further discussion.

However, it was generally agreed that:

- (a) consultations might be broadly along the lines of those conducted by international financial institutions;
- (b) the understanding and consultations should have particular regard to the objectives of the Scheme.

(ii) Export expectations

(a) An integral part of the Bank Staff Scheme is a mutually agreed projection of "reasonable expectations" of export earnings over a period of years. Its basic function would be to help to estimate available foreign exchange receipts. It would also be used to determine whether and to what extent an unexpected shortfall of export earnings occurred during the period. Such projections are based on expert judgements regarding world and country trade developments and regarding domestic policies affecting export earnings. The export projection may differ widely from historical trends. The experience of the World Bank staff in making export projections has been considerable, and the Bank Staff has stated that usable export projections can be made to establish reasonable expectations for the purposes of the Scheme. Their quality could of course be improved, and the Bank in its own projection work is constantly trying to improve its analytical tools as more statistical data become available.

Although based for the most part on major commodity exports, the Bank's projections would take all merchandise exports into account. The question whether invisibles should be taken into account in export projections would be decided on a country-by-country basis, in the light of the significance of these items in a country's foreign exchange receipts and of the nature of the data available.

The Bank staff has suggested that, for the purposes of the Scheme, during the operation of the development plan the underlying export projection should not be subject to revision except when changed conditions justify a major readjustment of the investment pattern and of development strategy because investment calculations must be based on export projections. Whether or not such a major readjustment is required would be determined in consultations between the Agency and the country concerned. Such consultations and adjustments will be requested at the initiative of either.

(b) Most members argued that export projections were an essential feature of the scheme. It was noted that the differences in methods of calculating export shortfalls under the scheme and under the IMF Compensatory Financing Facility reflected differences in basic objectives: the former was designed to deal with the unpredictability of export earnings, the latter with their fluctuations around the medium-term trend. The Scheme is designed to provide countries with an assurance that a projected level of export proceeds envisaged as part of an agreed development plan will be available throughout the plan period, to the extent that this level is required to prevent disruption of the agreed plan. On the other hand, the Fund facility, not directly linked to the planning process, is intended to offset negative deviations from a medium-term trend of exports, whether such fluctuations are foreseen or not. A few members thought that the term "reasonable expectations" was ambiguous and might be defined in a number of ways, e.g. by simple extrapolation, expert judgement, or as a medium-term trend. The implications of some of these alternatives are spelled out in Chapter IV. Other members argued that the concept must be defined to mean a reasonable forecast of export earnings, having regard to past experience, any factors which might affect future demand and prices and any measures of policy which the government in question intended to undertake which might affect its exports.

A few members pointed out that export projections for individual countries must be consistent. Consequently, they argued, it would be necessary to take into account demand in world markets for the commodities considered. It follows that the Agency would, implicitly, have to make a judgement concerning the shares of individual producers in world markets.

A number of criticisms were made of the validity of export projections as a basis for financial commitments. It was argued by some members that, not only is the uncertainty of global estimates too great but that, even if errors in estimates of individual countries offset each other, the problem of equity among them would still remain since those whose estimates proved ^{to have been} optimistic or inflated would benefit more from the scheme than those whose estimates were more realistic or even pessimistic. This problem is inherent in the uncertainties of estimation. Other members emphasized that countries presenting optimistic or inflated estimates might witness a reduction in the amount of basic finance they could count upon; in that case, the possibility of their benefiting from the scheme more than countries with realistic estimates would probably be balanced by that reduction. Two members felt that, while export projections might play a valuable role in the framework of development planning, they were not suited to serve as a basis for the calculation of claims. On the other hand, it was argued that the uncertainty facing planning authorities in relation to exports was the primary justification of the scheme and that unless it dealt with this uncertainty it would fail in its object. It was nevertheless widely felt that some revision of export projections should be envisaged in order to meet the main criticisms.

It was suggested that one way of reducing the uncertainty would be to accept that, since development plans require revision for a number of reasons, no plan put forward at the beginning of a plan period is likely to remain unrevised, and that this, as the Bank Staff recognizes, would inter alia, involve revision of export forecasts. The Agency would keep the progress of the plan under review in the periodic consultations

which are envisaged. It was suggested that in practice a single mid-term review would be appropriate and would make it possible to review export projections as well as thereby increasing their reliability. It would not infringe the purposes of the scheme, since the revised projections would be part of a development plan which had itself been revised in consequence of changes in the economic position and prospects. Some members argued that since frequent revisions of the export projections underlying a country's participation in the Scheme would defeat the basic objective of supplementary finance, revisions should be the exception rather than the rule, and concluded that the uncertainty inherent in export projections must be accepted. Some members argued that export projections should in no case be revised.

A second modification which was suggested by some members would be to provide for more frequent revision of export forecasts without this being necessarily part of a revision of the whole development plan. A way of making revisions mentioned by one representative would be for the Agency to review export forecasts annually and if necessary to revise them, normally in consultation with the country concerned, if a significantly more accurate estimate appeared possible. However, in the case of a deep and potentially protracted shortfall during the initial year of a forecast the Agency could maintain the original forecast up to three years to the extent its resources permit. It was further suggested that agreed export forecasts need not be a prerequisite for participation in the benefits of the Scheme. ^{Should the Agency} ~~In this case~~ *and done. Participating countries not reach an agreement on a single forecast.* the Agency would inform them of the forecast level which it would use as a basis for a subsequent application for supplementary finance. These suggestions would reduce the assurance given by the Scheme, but it could be argued that, if adopted, some degree of assurance would still be provided in the sense of the Recommendation.

Most members emphasized that agreed export forecasts were one of the basic characteristics of the Scheme. They considered that a scheme operated without a requirement for such forecasts or with such frequent revisions of them would fundamentally change the Scheme proposed by the World Bank staff and make it subject to much of the criticism of paragraph 7 of Chapter IV.

One member proposed instead that the Agency's determination of any shortfall should be made on the basis of certain pre-established guidelines but without the use of projections. It might compare, e.g., the actual export receipts during the year with the average of the two preceding years. The difference between the two could be defined as a shortfall from reasonable expectations and serve as the basis for the Agency's determination of the amount and terms of assistance. In doing so, it would take account of the additional considerations noted in ~~paragraphs (assessment of claims) above~~ ^{Ch. IV, Part A}

It was pointed out that it seemed rather difficult to include in export projections receipts on account of invisibles, owing to deficiencies of information and inasmuch as the value of these receipts would be greatly affected by each country's policies. Some members pointed out that nevertheless an effort should be made to include receipts on account of invisibles in appropriate cases.

A number of other members expressed the view that export projections were an essential element of a Scheme based strictly on Recommendation A.IV.18. Without them the Scheme would become different in kind and should be regarded as another possible method which might be employed (as defined in paragraph 2(h) of the Group's terms of reference). For this reason, this method of dealing with the problem is discussed in Chapter IV. Other members also took the view that without export projections certainty and speed of assistance would not be assured.

A few members raised the question of the relative importance of export shortfalls compared with other causes of instability in the external finances of development. While not questioning the premise (that is, that adverse movements in the export proceeds can be ^{YU}disruptive) on which recommendation A.IV.18, Part A, and the Study are based, they pointed out that development may nevertheless be disrupted by other causes affecting the availability of foreign exchange. A study of this subject was requested of the staff of the International Bank. The Bank staff stated that they had encountered conceptual and statistical difficulties in ~~making~~ ^{Scope} this study, but that the matter was under consideration. Since the premise mentioned above has been accepted, the outcome of this study would not call into question the need for supplementary financial measure but it would help to specify the ~~limitations~~ of the Scheme and would increase knowledge of other external causes of disruption of development programmes.

- (c) 1. ^{It was widely} ~~Most members~~ agreed that the term "reasonable expectations" used in the Recommendation contained in Annex A.IV.18, Part A, of the Final Act of UNCTAD should be interpreted to mean the best judgement which can be reached by the country concerned and the Agency, in consultation, as to the probable receipts from exports during the plan period, having regard to past experience, factors which may affect the future trend, and the policy intentions of the government concerned. This would be an essential element of the Scheme, however amended.
2. It was generally agreed that such expectations covering a planning period should be revised if necessary when a plan required revision.
3. Other reasons for revisions, the frequency of revision and the way in which decisions would be taken about export expectations and about revision, require further discussion.

B. The operation of the Scheme

According to the Scheme an export shortfall is the amount by which actual export proceeds (in nominal or real terms) during the plan period fall short of the previously agreed projected export proceeds for that period. This is defined as the gross shortfall. However, it is envisaged that the amount of assistance provided under the Scheme would become "less than the amount of shortfall, in accordance with prior understanding between the member and the Agency, by deducting (a) accumulated averages; (b) drawings on a member's own reserves, where feasible; (c) use of the IMF compensatory financing facility, or other credit or grant credit facilities, if available; and (d) that portion of the shortfall that could be absorbed by the country without disruption of the development effort" (Bank staff study, p.66). This is defined as the net shortfall.

(i) Import prices

(a) The Bank staff study recognizes that, ideally, export shortfalls should probably be calculated in real terms, i.e. after taking account of unexpected movements in import prices. The Bank staff study recognizes that certain conceptual and statistical difficulties would arise in doing so.^{1/}

^{1/} Staff Study (pp.64-65) and document TD/B/C.3/AC.3/13

(b) Some members supported the Bank staff's view that, owing to these difficulties, consideration of import prices should not be brought into the Scheme in the initial period. Other members did not feel that the problems were insoluble and emphasized the importance of import price changes.

(c) The desirability of taking movements in import prices into account was widely recognized. There was also a wide measure of support for the suggestion that, when a member country requested it, and the Agency was satisfied that these difficulties could be overcome, the export shortfalls should be calculated in real terms.

(ii) Overages

(a) The basic principle proposed in the Scheme is that financial assistance should be related to the amount of shortfalls - the amounts by which actual exports fall short of projected exports in particular years - net of the deductions mentioned in paragraph 1. These include "overages" - the amounts by which export proceeds exceed projected values in other years within the same planning period. In this way, the country uses any overages it earns during a plan period to finance shortfalls which occur in that same period. Because overages may occur before or after particular shortfalls, it is proposed that the assistance provided by the Scheme during a projection period should be in the form of "contingent credits", a part or all of which might be repaid within the projection period. At any time during the plan period, the total contingent credits extended by the Scheme to a country would equal the total shortfalls net of total overages and other deductions, which have already occurred up to that time. If an overage occurs after such contingent credits have been advanced, then the overage would be used to repay them. All the contingent credits which remain outstanding at the end of the period would be converted to a long-term credit.

(b) The Group agrees that, in principle, overages should be used in reduction of claims on the Scheme. Many members, however, argued that there were a number of considerations which would in practice seriously modify any simple statistical use of the concept.

There are, first of all, difficulties in assessing overages and making them available. It has been suggested that the Government in question might not know of the overages until they had been earned and spent, and that it might find it difficult to mobilize resources accruing in the form of receipts to private exporters; these difficulties can be exaggerated but there is some force in them.

Secondly, it has been argued that there may be legitimate uses to which overages might be put before any occasion arose for making a claim under the Scheme. One is that there might be an unforeseen increase in the need for imports, arising for a variety of reasons. Another is that the Government in question might wish to repay short-term external debt or to build up its external reserves. A third is that it might wish to accelerate or increase its investment for development. In the view of many members, these are possibilities which must be taken into account by the Agency in consultation with the country.

(c) The Group generally agreed that no simple deduction of overages would, in practice, be feasible. The concept (and the calculations based on it) would serve, rather, to indicate one criterion for reaching a decision on the amount of assistance the Agency could give. To the extent that overages were not used to offset shortfalls, the cost of the scheme would be increased.

(iii) Use of reserves

(a) The study suggests (pp.8 and 9) that the understanding between the Agency and member countries would include the amount of reserves which might appropriately be used to finance a development plan or to make feasible adjustments to unexpected shortfalls in export proceeds. The country would in both cases, decide upon these matters in consultation with the Agency both in drawing up a financial plan or a balance of payments projection or subsequently in deciding upon measures of adjustment. It is clear that the Agency's judgement about these matters would be made on the basis of advice from the International Monetary Fund.

(b) No comments suggesting significant modifications were made.

(c) It was generally agreed that these were desirable features of the Scheme.

(iv) Resources of the IMF

(a) The Staff Study recognizes that, in accordance with Recommendation A.IV.18, recourse to supplementary finance should normally come after the use of the Fund's facility for compensatory finance to the extent that it is available and that recourse is feasible in accordance with the criteria of the Fund. This same statement might apply, in view of the reclassification provisions of the decision of the Executive Directors of the IMF to enlarge and modify the facility in September 1966, to ordinary drawings to the extent that they may be reclassified as compensatory. Recourse, to the extent possible, to ordinary credit tranches of the Fund is also contemplated in the Bank staff study. This would be done in consultation between a country, the Fund and the Agency, but any recourse to the ordinary credit tranches would not be a prerequisite to access to supplementary finance. The Agency may provide finance, in appropriate cases, to enable a member to meet its repurchase obligations to the Fund arising from compensatory drawings as defined above.

(b) A few members observed that the Agency should take care in providing assistance for these purposes not to impinge on the relations between the IMF and its members. It was noted that recourse to the resources of the Fund, whether ordinary or compensatory, in all appropriate cases, would assist the Agency in matching its resources to the claims upon them.

(c) The Group generally agreed with these proposals subject to the proviso that prior recourse should be had to the Fund in appropriate cases through consultation between the Agency, the IMF and the country concerned.

(v) Adjustments

(a) Under the Scheme, some measure of adjustment would be expected in the case of unexpected shortfalls. In the first instance, these would have been specified in the policy understanding. The Agency would remain in contact with the member country in order to adapt the policy understanding in this and other respects to changing circumstances. The Scheme provides that in the event of an unexpected shortfall compressible consumer imports would usually be reduced first. Other measures of adjustment might include reductions in investment in export sectors when world demand is falling, postponing less urgent or less important public expenditures or altering the tax structure. The purpose of this Scheme is stated to be to introduce real resources into the economy and thereby permit the maintenance of most of the agreed investment in the development programme while permitting an orderly change in the pattern of investment to the extent necessary. (Staff study pp. 50-51).

(b) It was recognized that receipt of supplementary finance would not eliminate the need for adjustments to a shortfall in export earnings. While it would be difficult to foresee every situation that might arise, it was agreed that adjustments undertaken should be consistent with the overall objectives of the development programme in question. It was also argued that where a shortfall in export earnings reflects a major structural change in the market prospects of an export product, the measures of adjustment should facilitate adaptation to that change. Such adaptation might in suitable circumstances include provision for diversification. The view was expressed that, depending on the seriousness of the change, it might be desirable to revise the development plan itself. Whether a shortfall requires a relatively minor modification of current economic and financial policies or a revision in the development plan, the previously agreed level of foreign exchange receipts needed to carry out the development plan (in its original agreed form or as subsequently revised) should be maintained. It was suggested by some members that the nature of the adjustments which might be required as a condition for receipt of supplementary finance should be the subject of prior agreement and should be centred on trade policies and related fields. The point was also made that what constituted "feasible" adjustments could not be determined in advance of the experience which made them necessary; the satisfactory determination of feasible adjustments would depend on confidence being established between the Agency and member countries.

(c) It was generally agreed that measures of adjustment, which should be consistent with the overall objectives of the development programme, should be taken by the country in consultation with the Agency.

(vi) Assessment of Claims

(a) The problem of assessing claims in the context of the implementation of policies and programmes would be dealt with as follows. The Scheme makes provision for periodic consultations between the Agency and a participating country. In the actual operations, there ~~would~~ ^{might} also be need for consultation between the Agency and the member country when an unexpected export shortfall resulted in a need for finance from the Agency. The purpose of this consultation, however, would only be to ensure that other available sources of financing were being used and that feasible adjustment measures not endangering the development programme were being taken. Thus, the consultation would not reduce the certainty or speed of availability of needed assistance. The Agency would be able at this time, to determine whether the country is entitled to assistance. The amount would be decided in accordance with the criteria set forth in sections (i) to (v) above.

(b) A number of members argued that the Agency, after having established the amount of the shortfall, should then take into account a number of considerations in order to arrive at its decision on the amount and terms of assistance, rather than relying on any more or less automatic procedure. It was suggested that this examination could and should be speedy since there would already have been contact between the country and the Agency in the form of the policy understanding and consultations. Other members felt that such a procedure would give the Agency too wide a discretion which would deprive the potential beneficiaries of the certainty of assistance which the scheme would provide. In addition, the decision on claims would be unduly delayed. Some members, while agreeing fully with the need for Supplementary Financing and with the general lines of the Bank Study, expressed the opinion that no consultations were necessary until a shortfall materialized, since, due to the residual character of the scheme and the elaborate procedure for claiming assistance, a certain time lag was inevitable in any case.

(c) ~~No conclusions were reached on these points~~ *Conclusions on this point will depend on final agreement about policy understanding*

(vii) Form of assistance *and consultations with which it is closely linked.*

(a) The Bank staff study proposes that the Agency decide in each case whether assistance should take the form of a freely usable loan or a loan for the financing of particular imports. The Study suggests that the realization of the objective of the Scheme, namely preventing the disruption of sound development programmes in the event of an export shortfall, would indicate that assistance ought to be provided in a form that the recipient country could use fairly promptly. Assistance related to projects would not normally serve this end, because of the delays involved in project preparation and evaluation. It could be left to the discretion of the Agency to work out an agreement with the member country as to how the finance would be applied to ensure that the development programme could go forward.

(b) Some members suggested that in some cases it might be desirable to promote specific projects, e.g. for purposes of diversification or for earning foreign exchange. Many argued, however, that the form of assistance should be such that it ^{could} be speedily utilized.

(c) It was generally agreed that there should be a considerable degree of flexibility in determining the form of assistance, which should be such as to enable recipients to utilize such assistance for preventing the disruption of development programmes.

(viii) Terms of assistance

(a) Recommendation A.IV.18 of the first Conference states that "assistance should be on concessional and flexible terms". The Bank staff study envisages that Supplementary Finance should normally be provided on the same terms as those applicable to basic long-term development finance provided to the same country. The decision of terms would be based on an examination of the individual circumstances of various countries, including their overall economic and financial situation - present and prospective - and paying particular regard to such factors as the export outlook, the debt service burden and savings potential. The Scheme assumes that whenever the situation requires concessional terms for basic finance, Supplementary Finance should also be made available on concessional terms. The Agency would have the right to request repayment earlier than originally stipulated if the resource and foreign exchange position of a country improved so substantially as to enable it to repay its debts to the Agency before maturity without affecting the progress of agreed development programmes.

(b) It was suggested that the terms of supplementary finance should reflect the terms of basic finance applicable at the time of a shortfall and not necessarily those applicable to basic finance at the beginning of the plan. According to an alternative suggestion, although the terms of assistance should be flexible, they ought to be related to the duration of the shortfall and there might therefore be provision for harder terms than those for basic finance in appropriate circumstances. A few members advanced the suggestion that instead of tailoring the terms of assistance to the economic circumstances of each country individually, it would be administratively more convenient to group countries into categories, each of which would have specified terms of assistance. It was suggested on the other hand, however, that care should be taken not to oversimplify, since the purpose of supplementary finance was to deal with unforeseeable situations, each of which might have different characteristics.

(c) It was generally agreed that the assistance should be on concessional and flexible terms based on an examination of the circumstances of individual countries including their overall economic and financial situation - present and prospective - and paying particular regard to such factors as the export outlook, the debt service burden and savings potential.

(ix) Costs

(a) The Bank staff has estimated that, as a reasonable working figure, the Scheme should have total resources of about \$300-400 million a year for an initial experimental period of five years. The Scheme, however, enters a new area of international economic co-operation by suggesting a method of coping with the difficulties caused by the unpredictability of export proceeds. Thus, there is no historical basis for making a precise estimate of future costs. The estimate put forward was, however, based on an analysis of considerable closely related historical experience available to the Bank staff from its work with member countries during the past 20 years and is in its view the best, if not the only, way of proceeding. Estimates might be based on alternative assumptions, but in the Bank staff's view, these, although they may seem more precise, would probably produce less reliable results. The aim of the analysis made was to arrive at a figure at which the Scheme might reasonably be expected to operate successfully in the initial period. The Bank staff points out that in considering their own^{1/} or any other estimate of gross shortfalls, a number of factors would tend to reduce gross shortfalls and the need for recourse to the Scheme. The most important of these are greater reliability of export projections for various reasons, the emphasis on policy performance, the offsetting of overages against shortfalls, the use of other available foreign exchange resources and the provision for feasible adjustments that would not disrupt the agreed development programmes. The Bank staff noted that the \$300-400 million estimated per annum could prove to be too high as well as too low. If too high it would reduce the cost of the Scheme in future years.

(b) Most members of the Group considered the Bank staff estimates a reasonable basis for consideration of the cost of the scheme.

^{1/} World Bank staff study, Chapter VI and Appendix IV.

Some other members questioned both the data underlying the estimates and their amount. It was acknowledged that the basis for such estimates could not always be quantified. It was also suggested that the underlying data should be brought up to date. It was pointed out that the difference between the estimate of gross shortfalls - \$1.6 billion per year on the average for the period 1959-1963 on the basis of the best data available - and the cost estimate of \$300-400 million per year on the average was very large. It was also pointed out that modest errors either in the estimate of the gross amount of the shortfalls or in the deductions made from them in order to arrive at the estimates of cost, might significantly affect the latter. It was further pointed out that the method of making these deductions could not by their nature be precise and that, since there were numerous deductions, errors in some might cancel out errors in others. It was argued that an increase in a number of countries eligible for assistance under the Scheme would probably result in claims on it larger than those foreseen by the Bank staff. On the other hand, an increase in the number of successful commodity arrangements and improvement in data and projections would probably have the opposite effect.

10 c. It was widely agreed that the estimate of \$300 - \$400 million per year of the World Bank Staff provided the basis for arriving at a figure at which the Scheme might reasonably be expected to operate successfully in the initial period. It was also widely agreed that the Scheme should have a fixed amount of resources at its disposal determined on the basis of this estimate and must be managed within this limit.

(X). Rationing

(a) The Scheme is based on the assumption that the Agency would have enough funds to achieve its objectives, but some provision would have to be made for it to be able to ration its resources if they proved inadequate, e.g., by setting a maximum commitment vis-à-vis each eligible country or by limiting assistance to certain countries meeting special criteria.

(b) The goal of 100 per cent financing of unexpected export shortfalls of a disruptive nature was felt to be desirable. It was pointed out, however, that such coverage would not be possible if available resources were less than eligible claims. It would therefore be prudent to provide against the possible need to ration the Agency's disbursements. It was suggested, however, that although rationing might be considered as an emergency measure, its possible use should not enter into calculations of the resources required for the scheme. Rationing might take one of the following forms:

- (i) a pro rata system whereby a country's share in total eligible shortfalls would determine its share in total disbursements by the Agency. It was recognized that this system might encounter difficulties in ascertaining, at a given moment, all the actual and potential shortfalls of a given period;
- (ii) rationing on the basis of needs, as reflected, say, in per capita income; and
- (iii) rationing according to the ability of countries to withstand the disruptive effects of shortfalls, taking account of their reserve positions. It was suggested that any system of rationing should be as automatic in its application as possible.

These are only three illustrations of possible systems of rationing. Many others could be envisaged.

(c) ~~No general agreement has yet been reached on these points.~~

(xi) Financial administration

It was generally agreed that it was neither necessary nor desirable at this stage, to attempt to lay down rules for rationing should the need arise.

The Group noted one or two other points which are relevant to the management of its resources by the Agency. The first relates to the call up of contributions pledged for the total plan period. It was noted that governments would probably not wish to provide funds (which would no doubt be called upon a pro rata system) before they were required and would no doubt also wish to limit the amount which they provide in any one year of the period. The Agency, for its part, would wish to husband its resources so that it did not spend too much in the early years of the plan period while, on the other hand, it would need a reasonable degree of flexibility. It was noted that difficulties might arise in reconciling the need for such flexibility with the budgetary procedures of certain donor countries and that these would require further study.

It was noted moreover that very heavy claims in any particular year might leave the Agency with insufficient funds to deal adequately with claims arising later on. It was suggested that this difficulty might be met by the Agency making a partial payment on claims arising early, if this difficulty seemed likely to occur, and making a final assessment on all claims together at the end of the year.

It was agreed that no firm conclusion need be reached at this stage on these points. These and other questions of financial administration would have to be settled when detailed arrangements for administering the Scheme were discussed.

One member stated its view that multilateral arrangements for providing assistance should include adequate safeguards designed to take account of the problems of donor countries which may be experiencing balance of payments difficulties.

Another view expressed was that such safeguards should take particular account of the position of developed ^{Countries whose exports consist mainly of primary products.} ~~primary producers.~~

It was noted that the implications of any such safeguards as regards the availability of the resources of the Agency would require further consideration, particularly if they were to be invoked in other than serious cases.

Chapter III

THE AGENCY

The Recommendation contained in Annex A.IV.18, Part A, of the Final Act of the First Conference states that the Scheme for supplementary finance should be administered under the International Development Association. The Bank Staff Study does not address itself to the question of the administering Agency. However, the study envisages close co-operation among the Agency, the World Bank and the International Monetary Fund regardless of the identity of the Agency carrying out the Scheme.

There was general agreement in the Group that the creation of a new Agency for the administration of the Scheme would be unnecessary, uneconomic and would create considerable complications, and that among the existing international agencies the World Bank group would be the most appropriate. It further agreed that the Scheme should be administered in close co-operation with IMF. The specific arrangements which would be necessary would require further consideration.

It was also agreed that the largest possible number of developing countries should be eligible for participation in the Scheme, whether or not they were currently receiving assistance from the IDA. It was agreed that the question of countries not members of the IMF and the World Bank required further consideration and legal advice.

Distr.
RESTRICTED

TD/B/C.3/AC.3/CRP.49/Add.1/Rev.1
9 November 1967

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Committee on Invisibles and Financing
related to Trade
Intergovernmental Group on Supplementary Financing
Third session
Geneva, 30 October 1967

SUPPLEMENTARY FINANCIAL MEASURES

Draft Final Report of the Intergovernmental Group

Chapter IV

OTHER PROPOSALS FOR AVOIDING THE DISRUPTION OF DEVELOPMENT PROGRAMMES

1. During the course of the discussion of the feasibility of the Scheme and its compatibility with the provisions of Part A of the recommendation contained in Annex A.IV.18 to the Final Act of the UNCTAD, two questions arose which were discussed by the Group, as prima facie they seemed to arise from paragraph 2(g) and (h) of its terms of reference. These questions are stated below, together with a brief commentary upon them. The commentary upon them and the discussion of them were brief because of the central importance attached to the Scheme in the terms of reference and the work of the Group.
2. The first question was: Are there other ways of achieving the purposes of the Recommendation? Two were suggested in the course of discussion. They are briefly outlined below.
3. The second question was whether the Scheme and even the recommendation diverts attention from the root causes of disruption. This question was raised by the representative of a country which had entered reservations to the recommendation. The view he expressed in raising this question and his answer to it are set forth below.

A.

4. It has been suggested by one member that one way of dealing with the problem to which the Bank staff study addresses itself would be a simplified type of scheme, omitting export projections and any prior understanding on policy matters. Since it is generally agreed that export projections are fundamental to the Bank staff's scheme, this variant would be different in kind. It was proposed that a determination as to whether the decline in export receipts was a shortfall from reasonable expectations should be made by an Agency ex post on the basis of certain established guidelines. In its decision, the Agency might compare e.g. the actual export receipts with the average of the export receipts of the two preceding years. The difference between the two figures might be defined as a shortfall from reasonable expectations and might be the starting basis for the Agency to determine the amount and term of assistance. In doing so, the Agency would have to take into account additional considerations. The Agency, after having established the amount of the shortfall, should take into account a number of considerations in order to arrive at its decision on the amount and terms of assistance. These considerations would have to include in particular:

- the cause and seriousness of the shortfall;
- the degree of possible disruption of the development programme;
- the prospective development of exports in the current and following years;
- the applicant's economic performance in general;
- the financial resources available to the Agency.

5. It was suggested that this examination should be speedy in order not to delay financial assistance; since there would already have been consultations between the country and the Agency, a reasonably fast procedure would be possible. The funds available for this purpose would be fixed. There would be a close connexion with the compensatory financing facility of the IMF and for this purpose there would be close cooperation between the Agency and the Fund, possibly in a common body.

6. The proposal described in paragraphs 4 and 5 above did not find a wide measure of support for the following reasons.

7. This proposal envisages a largely discretionary arrangement. Without clear and objective criteria to guide the administering agency, there would be no assurance that the scheme would serve the objective of Recommendation A.IV.18, i.e. preventing the disruption of development programmes resulting from unexpected export shortfalls.

If the criteria for the operation of the ^{arrangement} ~~scheme~~ were as vague as envisaged in the above proposal, the objectives of Recommendation A.IV.18, which clearly envisaged ^{an} ~~a~~ specific ~~scheme~~ ^{arrangement} for a specific purpose, would not be attained. In fact, prospects for potential recipient countries would be highly uncertain both as to the amount of any assistance that might be received and as to the basis on which a determination of need would be made.

8. In so far as the proposal in paragraphs 4 and 5 does lay down a guideline, it is that export shortfalls should be measured by comparing the actual export receipts in any given year with the average of the export receipts of the two preceding years. Export shortfalls of this nature are normally dealt with by the short-term balance of payments support provided by the International Monetary Fund, and a separate arrangement seeking to offset such export shortfalls would either be superfluous or would impinge on the traditional area of operations of the Fund. It would be inconsistent with recommendation A.IV.18 which specifies clearly that a scheme for supplementary financial measures "should aim to deal with problems arising from adverse movements in export proceeds which prove to be of a nature or duration which cannot adequately be dealt with by short-term balance of payments support". Moreover, an export norm defined as the average level of exports during the two preceding years would not be an adequate measure of "reasonable expectations", since for most countries the normal export trend is upwards.

9. A few members of the Group, however, felt that the suggestions made in paragraphs 4 and 5 above were a reasonable response to some of the criticisms and comments made in the Group regarding the Scheme and that these suggestions therefore merited further consideration ~~by the governments which will be called upon to discuss this report.~~

10. It was generally felt, however, that the proposal referred to in paragraphs 4 and 5 was outside the scope of recommendation A.IV.18 and would not adequately meet the need to which it was addressed.

B.

11. Remarks made by two representatives led to the following suggestion. If the term "reasonable expectations" were to be defined as meaning the medium-term trend of export proceeds which is currently calculated as a basis for the IMF's compensatory financing facility, it could be the basis for an alternative method of supplementary financing. Such a scheme might have the following characteristics: the Agency would at their request, examine the economic situation and performance of countries which had drawn from the IMF under its compensatory facility, or had made ordinary drawings to offset shortfalls of the same general character. The purpose of the examination would be to ascertain whether the country was making a reasonably effective effort to promote its own economic development. The examination would be based almost entirely upon continuing financial and economic consultations and surveys of the IMF, the IBRD and other appropriate agencies.

12. The principal purpose of this assistance would be to extend the period of repurchase of the IMF drawings specified above, should the examination reveal that the obligation to repurchase threatened the disruption of development efforts. The Agency would also be empowered to provide drawings on terms similar to those of the drawings specified above should the country's entitlement to draw prove smaller than the amount of the shortfall. These drawings too, would be eligible for extension.

13. The Agency would be provided with a fixed amount of funds for an initial experimental period.

14. The suggestions in paragraphs 11 to 13 found little support for the following reasons.

15. A proposal for refinancing compensatory drawings was approved by the first Conference in its recommendation A.IV.17 which stated that member Governments of the Fund should "explore ways to secure possible refinancing of compensatory financing obligations of the developing countries in the event of a persistent shortfall in export receipts beyond the control of the country affected". Thus the Conference clearly envisaged a solution of this problem within the framework of the Fund, but did not consider that such a solution would meet the objectives of recommendation A.IV.18. Most members take the view that recommendation A.IV.17 and A.IV.18 have different, though complementary, objectives.

16. ~~The proposal in paragraph 11 suggests that the term "reasonable expectations" in recommendation A.IV.18 should be interpreted to mean the medium-term trend value of exports as currently used by the IMF in the operation of its compensatory financing facility. It was argued that this definition would not be relevant to the principal purpose of the suggestions (as defined in paragraph 12) which envisages the provision of general balance-of-payments support through the refinancing of Fund drawings.~~ The basic purpose of the IMF facility is to smooth out export fluctuations, so that the very definition of the trend adopted by the Fund is such as to make it likely that shortfalls will be of brief duration. As the IMF pointed out in its second report on compensatory financing, "calculations covering 48 countries show that almost 50 per cent of all shortfalls with respect to a norm

The principal purpose of the suggestions (in para 12) would be the provision of general balance of payments support through the refinancing of Fund drawings rather than meeting shortfalls from export expectations, however defined.

defined as above^{1/} last only one year, nearly 95 per cent no more than two years, and 96 per cent no more than three years" (p.6 of the second IMF report on Compensatory Financing of Export Fluctuations). Thus shortfalls measured in terms of a medium-term trend, as currently used by the IMF, inherently tend to reverse themselves in a short period of time, so that repurchase is usually made in three to five years. Consequently the refinancing of compensatory drawings would provide only limited assistance, and no serious case could be made out for separate arrangements limited merely to this objective, which is not that of recommendation A.IV.18, namely to maintain the integrity of development programmes in the face of export shortfalls.

17. Furthermore, refinancing on a short- to medium-term basis is always possible even under the existing Fund facility for compensatory financing. To quote the second IMF report on compensatory financing:

"While there is no specific provision in the Compensatory Financing Decision of 1963 for refinancing of compensatory drawings, refinancing on a short-term to medium-term basis would, in effect, be possible in the circumstances that appear to be envisaged in the UNCTAD recommendation, viz., in the case where at the time when a repurchase falls due in the fourth or fifth year following a compensatory drawing there is a shortfall in export receipts beyond the control of the affected country. The repurchase would restore the compensatory financing facility pro tanto, and if at that time an export shortfall of the type described persisted, the member would be in a position to apply for a new drawing under this facility. Moreover, when a repurchase obligation contributes to a member's temporary balance-of-payments difficulties, it would be possible for the Fund, in appropriate circumstances, to agree to an ordinary drawing at the time of the compensatory repurchase." (p.27)

18. It was noted that further details would be required as to the amount of resources to be provided and the terms on which aid for refinancing would be given.

19. A few members thought that the suggestions set forth in paragraphs 12 to 14 merited further consideration.

20. It was generally felt, however, that the proposal contained in paragraphs 11 to 13 would not adequately meet the aims of recommendation A.IV.18.

^{1/} The moving average for a five-year period.

C.

21. In the view of one of the members of the Group, any scheme based on the idea of compensation for shortfalls in export receipts cannot, by definition, be an effective solution to the instability and inadequacy of the export receipts of developing countries. In the view of this member, the effort to find a purely financial solution to problems which arise because of the poor organization of trade relations between industrialized and developing countries is certain to fail to the extent that it is addressed to the symptoms and not to the root causes of the difficulties it is intended to resolve, unlike an effort to organize the markets for primary products.

22. This delegation also emphasized that the implementation of a system of supplementary finance would probably delay the negotiation of a system of price stabilization. Such a system would undoubtedly require a certain discipline on the part of the countries concerned, both in production and trade, but it would help to promote the growth of developing countries by assuring them of stable and remunerative prices.

23. In addition, this delegation expressed grave doubts about the possibility of securing without difficulty from developed countries which would have agreed to pay the costs of supplementary finance, an agreement to undertake the financial obligations that would be required by a system of market organization. In these circumstances, no real advantage would accrue to the developing countries, which would not receive any significant increase in aid and which would continue to bear the burden of the deterioration of their terms of trade.

24. In that delegation's opinion, an initiative in the field of supplementary finance would delay the work undertaken by the IMF and the World Bank in accordance with the resolution on price stabilization adopted at Rio de Janeiro. In a large part, the possibility of providing producers of raw materials with greater stability of prices and a higher level of export receipts would depend upon this work.

25. The suggestions in paragraphs 21 to 24 found little support, for the following reasons.

26. Notwithstanding extensive exploration of this matter over a period of several years, the proposal for "market organization" has yet to be precisely defined. It is to be hoped that the studies to be undertaken by the Bank and Fund in consequence of the resolution adopted at Rio de Janeiro will enable proposals to be put forward for

action in this field, but it was not suggested that this should be taken as grounds for postponing action on the supplementary financing scheme under consideration in UNCTAD, and it is doubtful whether the resolution would have been adopted if this interpretation had been placed on it at the time.

27. It has, moreover, never been suggested that a system of market organization could be applied to all commodities exported by developing countries, or that the commodities to which it was applied would not undergo any unforeseen variation in export volume or in prices. It will therefore be apparent that "market organization", however defined, could not eliminate the problem of disruption of development due to unexpected export shortfalls.

28. There was little support for the view that supplementary financing would compete for resources with a system of market organization: it was held rather that the contrary was true and that supplementary financing and a system of market organization would tend to reinforce one another.

In so far as it did prove possible to stabilize the prices of certain commodities, this would assist the scheme of supplementary financing by reducing potential claims upon its resources.

Distr.
RESTRICTED

TD/B/C.3/AC.3/CRP.49/Add.4
8 November 1967

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Committee on Invisibles and Financing
related to Trade
Intergovernmental Group on Supplementary Financing
Third session
Geneva, 30 October 1967

SUPPLEMENTARY FINANCIAL MEASURES

Draft Final Report of Intergovernmental Group

Chapter V.

ORGANIZATIONAL MATTERS

Opening of the session

The session was opened on 30 October 1967 by Mr. M. Mermolja (Yugoslavia), Chairman of the Group.

Adoption of the agenda

The provisional agenda circulated before the session (TD/B/C.3/AC.3/19) was adopted unchanged and is reproduced below.

1. Adoption of the agenda
2. Further consideration of supplementary financial measures
3. Adoption of the report of the Intergovernmental Group on Supplementary Financing to the second session of the United Nations Conference on Trade and Development
4. Other business.

Attendance

The representatives of the following countries attended: Argentina, Brazil, Ceylon, Federal Republic of Germany, France, Ghana, India, Japan, Poland, Sweden, United Arab Republic, United Kingdom of Great Britain and Northern Ireland, United States of America, Yugoslavia. The following countries designated observers to attend the session: Algeria, Australia, Austria, Bolivia, Canada, Chile, China, Colombia, Cuba, Denmark, Finland, Guatemala, Hungary, Iran, Iraq, Israel, Italy, Netherlands, New Zealand, Nigeria, Norway,

Pakistan, Philippines, Republic of Korea, Republic of Viet-Nam, Romania, South Africa, Spain, Switzerland, Trinidad and Tobago, Tunisia, Turkey, Uruguay. Representatives of the International Bank for Reconstruction and Development, the International Monetary Fund, the Organization for Economic Co-operation and Development and the International Chamber of Commerce attended the session.

The list of participants is reproduced in Annex

Organization of work

The Intergovernmental Group had before it the following documents:^{1/}

- TD/B/C.3/41-TD/B/C.3/AC.3/16 - Intergovernmental Group on Supplementary Financing, Report on its first session
- TD/B/C.3/44-TD/B/C.3/AC.3/17 - Intergovernmental Group on Supplementary Financing, Report on its second session
- TD/B/C.3/AC.3/18 - Trade Policy Toward Low-Income Countries - Note by the Secretary-General of UNCTAD
- TD/B/C.3/AC.3/21 - Statement by Dr. Raúl Prebisch, Secretary-General of UNCTAD, at the twenty-eighth meeting of the Intergovernmental Group on Supplementary Financing on 30 October 1967

Annexe List of delegates / observers

^{1/} In addition to the material submitted at the first and second sessions which was relevant to the deliberations at the third session.

Joint Statement of Developing Countries
Members of the Intergovernmental Group
on Supplementary Financing

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 wish 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, 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.



Distr.
GENERAL

TD/B/C.3/AC.3/3/Add.1
29 November 1966

Original: ENGLISH/FRENCH

United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD
Committee on Invisibles and Financing
related to Trade
Intergovernmental Group on Supplementary
Financing
Second session
Geneva, 6 February 1967

INTERGOVERNMENTAL GROUP ON SUPPLEMENTARY FINANCING: INTERIM RECORD OF DISCUSSIONS AT ITS FIRST SESSION

Addendum to the note by the UNCTAD secretariat

The attached document is a summary of the discussions of the Intergovernmental Group on Supplementary Financing at its first session. It has been prepared by the secretariat on the basis of Conference Room papers summarizing items 1-7 of the Group's terms of reference and the amendments to these papers submitted by participants^{1/} In two cases amendments are placed in square brackets for further consideration by the Group. During the discussions, two papers were submitted to the Group by participants: a list of questions by the delegation of France and a note by the delegation of the United Kingdom. These papers are reproduced as Annex A and B respectively. At the request of the Group, the secretariat prepared a comparison of the IMF Scheme for Compensatory Finance and the World Bank staff proposals on Supplementary Financial Measures: this is reproduced as Annex C.

^{1/} There was no opportunity for the Group to comment on the summary of discussion of items 8 and 9 of the terms of reference. A provisional summary of these items has been distributed to the Group.

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SECTION I

Summary of discussion of items 1-7 of the
terms of reference of the Group

1. Questions affecting the scope of the scheme, including the treatment
of overages and the regard to be paid to import prices

General scope of the scheme

(a) As described in the study by the staff of the World Bank^{1/} the objective of the scheme "is that of preventing the disruption of sound development programme or policies by unexpected shortfalls in export earnings which are of a 'nature or duration which cannot adequately be dealt with by short-term balance of payments support'" (p.2).

(b) Export receipts are defined by the Bank staff study "to include merchandise and, where appropriate, invisible items" (pp. 8-9). The question was raised whether receipts from exports of manufactures should be included, and whether the statistics on invisible earnings were sufficiently reliable to be included in total export receipts. It was pointed out that exports of merchandise include those of manufactures which should therefore come within the scope of the Scheme.

(c) It was suggested that the scheme may be formulated so as to take into account the effects on a development programme of a situation in which, although the value of exports did not fall short of reasonable expectations, this occurred only because of a rise in export volume offsetting a fall in export prices. It was pointed out that such an increase in export volume involved the use of real resources possibly at the expense of resources needed for other development purposes. It should be considered whether in such a situation a country would qualify for supplementary financial assistance.

(d) Two views were expressed regarding the causes of disruption to be taken into account. On one view, the scheme should include only those causes of disruption specified in UNCTAD recommendation A.IV.18. A broader interpretation, however, would provide for the inclusion of other, though related, causes of disruption, such as crop failures or other unforeseen circumstances leading to

^{1/} IBRD, Supplementary Financial Measures, December 1965, TD/B/43. Page references in parenthesis refer to this study.

increases in import expenditures. More information concerning the causes of shortfalls in export receipts, other causes of disruption and the mechanism of disruption may be provided by further study and consideration should be given as to which ones should qualify for assistance under the scheme.

(e) It was, however, suggested that interpretations such as those expressed in (c) and (d) would go beyond UNCTAD recommendation A.IV.18.

Import prices

(a) Disruptive effects on a development programme of significant rises in import prices, particularly the import prices of capital goods, may be taken into account in calculating shortfalls and in determining the amount of supplementary finance to be provided by the Agency.^{1/}

(b) Solutions to the statistical problems in obtaining reliable information about import prices should be explored. Some amplification of the views expressed in the Bank study, that satisfactory import statistics were not available, was suggested. The Bank's views as to the character, country-availability and reliability of import price figures would be welcome.

(c) Assuming such statistical problems could be overcome, one way of taking import prices into account would be to compare expected export earnings adjusted for expected import prices with actual export earnings adjusted for actual import prices. This is, in effect, a particular way of calculating the gross shortfall. It has the virtue of measuring the import purchasing power of exports, a matter of relevance to development plans. But the "expected" values must be calculated ex ante, which may prove too complex. If that were the case, an alternative which might be adopted would be to consider import prices ex post, when a country was applying for supplementary finance in the event of a shortfall already experienced.

(d) A rise in import prices may lead to an increase in the cost of the import content of a given value of exports, thus reducing the net foreign exchange value of exports. The purchasing power of net foreign exchange receipts would also be reduced by a rise in import prices.

Overages

(a) The scheme requires that member countries use overages and other sources of finance before receiving supplementary finance (p.41). This is necessary not only to reduce the total cost of the scheme but also to ensure symmetry between the responsibilities of all participants in the scheme.

^{1/} See Proceedings of the United Nations Conference on Trade and Development, Vol. I, Final Act and Report, Annex A. IV.18, part A, II and Note 3.

(b) Overages would therefore have to be secured or accounted for in some manner which would make it possible for them to be offset against shortfalls in accordance with the criteria of the scheme.

(c) Statistical problems in the estimation of overages, including problems of export valuation should be considered.

(d) Deliberate withholding of commodity exports during a period of unfavourable market conditions followed by enlarged sales subsequently at better prices could result in overages in particular years. It was suggested that overages resulting from marketing strategy of this type should not necessarily limit a country's potential access to supplementary finance.

(e) While the offsetting of overages against shortfalls may be necessary to reduce the cost of the scheme, the question arises whether there are other legitimate uses of overages, such as reconstitution of reserves, maintenance of essential imports and servicing of foreign debt. In particular, the question was raised whether, if overages occurred in the early years of a planning period, they may not be legitimately used for the financing of imports consistent with the agreed development programme. One view was that it might be hard for a country to forego the use of overages in early years if it had experienced in those years difficulties other than export shortfalls disruptive of development programmes. Use of overages should form part of the prior agreement between the Agency and the participating Government.

(f) The Bank staff study recommends that overages should "not be transferred from the accounts of one projection period to the next" (p. 42). The question was raised whether such a transfer might be effected in whole or in part. It was pointed out that the recommendation of the Bank staff study was meant to be a stimulus to increased exports from participating members.

2. The forms, terms and conditions for the provision of financial assistance to countries participating in the scheme

Terms and conditions of assistance

(a) The scheme lays down that the terms and conditions of assistance from the Agency would be similar to those for basic development finance. This implies that they would be tailored to the conditions prevailing in each country. It would be necessary to arrive at a judgment on the terms appropriate for each country. The view was expressed that the consultative groups and the experience of the World

Bank Group might provide a guide. Although the terms would vary from case to case, the Agency would be prepared to extend funds on concessional terms in many countries (p. 60). If it were not possible to devise a system of tailor-made terms, some system of grouping might be used (based, for example, on income per head and balance of payments prospects), or the "DAC norm" (twenty-five years maturity, seven years grace period, 3 per cent interest) might be adopted.

(b) A suggestion was made that the average terms of basic development finance should not be taken to mean the average terms of the existing outstanding debt since these terms may be heavily influenced by the past, rather than the present economic situation of the country. It was, therefore, suggested that the terms and conditions of assistance under the scheme should approximate those applicable to current basic finance.

(c) An opposite view was that the objective and nature of the scheme were such as to justify shorter repayment periods than those applying to long-term development finance in cases of improving exports or indebtedness of the country. It was, however, pointed out that this would be inconsistent with UNCTAD recommendation A.IV.18, which specifically called for longer-term assistance.

(d) Under the scheme, the Agency would have the right to request repayment earlier than originally stipulated, in the event that the resource and foreign exchange position of the debtor country improved so substantially over time that it could afford to repay its debt to the Agency before maturity, without affecting its [attainable] [target]^{1/} rate of growth. It was suggested that the above provision was unduly stringent, especially if it were intended to use the occasion of export improvement in one planning period to repay loans obtained to offset shortfalls in a previous period. Since recourse to supplementary finance would be sought under conditions of a threat of disruption of a development plan through the creation of a gap in a country's resources, such finance would be of a marginal character and should, therefore, be on soft terms to avoid an aggravation of the debt-servicing obligations of the country.

Adjustment

(a) It was recognized that receipt of supplementary finance would not eliminate the need for adjustments to a shortfall in export earnings. While it would be difficult to foresee every situation that might arise, it was agreed that adjustments undertaken should be consistent with the over-all objectives of the development programme in question.

^{1/} "Attainable" is the word used in the Bank staff report, page 60; "target" is the alternative word suggested by representatives of Groups A and C.

(b) Where a shortfall in export earnings reflects a major structural change in the market prospects of an export product, the measures of adjustment should facilitate adaptation to that change. Such adaptation might in suitable circumstances include provision for diversification. The view was expressed that depending on the seriousness of the change, it might or might not be desirable to revise the development plan itself. Whether a shortfall requires a relatively minor modification of current economic and financial policies or a revision in the development plan, the perviously agreed level of foreign exchange receipts [needed to carry out the development plan (in its original agreed form or as subsequently revised by agreement between the country and the Agency)]^{1/} should be maintained. Resources would not, of course, continue to be channelled to export activities affected by structural shifts in demand, but would become available for diversification.

(c) It was suggested by some members that the nature of adjustments which might be required as a condition for receipt of supplementary finance should be the subject of prior agreement and should be centred on trade policies and related fields.

(d) The proposed scheme foresees a need for consultation between the Agency and a member country when an unexpected export shortfall results in a need for finance from the Agency (p. 10). Although consultation would be necessary to determine that other available sources of finance were being used, and that feasible adjustments not endangering the development programme were being made, it was agreed that this would not prejudice the certainty or speed of availability of needed assistance, particularly since regular periodic consultations between the Agency and its members would be taking place in the normal course of events. The point was also made that what constituted "feasible" adjustments could not be determined in advance of the experience which made them necessary; the satisfactory determination of feasible adjustments would depend on confidence being established between the Agency and member countries.

(e) It was further suggested that revisions of development programmes should not be imposed as a condition for receiving supplementary finance. It was pointed out that the regular consultations envisaged in the scheme would provide timely and adequate opportunities for any necessary modifications of development programmes and policies.

^{1/} Addition suggested by the representative of the United Kingdom.

(f) The IMF is the responsible agency in matters of adjustment arising from balance of payments difficulties. Close co-operation between the Fund and the Agency would therefore be necessary in providing for measures of adjustment to be adopted in connexion with the utilization of supplementary finance.

3. Measures for establishing a relationship between the resources available and the resources required; in this connexion the Group should examine the implications for the scheme of the hypothesis that resources on the scale suggested in the Bank staff study (taking account of any modification which the Group may suggest) would be available

(a) It is clear that Governments and parliaments of donor countries cannot be expected to support a scheme with no maximum limit. It was pointed out, however, that just as a maximum limit was a condition for support of the scheme by donor countries, so would a minimum level of finance be necessary to ensure that the objectives of the scheme would be achieved. At the same time, a fully reliable estimate of the resources required to operate the proposed scheme is probably not attainable due to the complexity of factors influencing possible needs for supplementary finance, and the fact that only limited guidance for the future can be obtained from the analysis of past fluctuations.

(b) The World Bank staff study estimates the annual requirements of the scheme at \$300 - 400 million. The estimate was derived from estimates of unexpected annual gross shortfalls for the period 1959-1963 of about \$1.6 billion for all developing countries (p. 70) adjusted for a number of factors tending to reduce the need for recourse to the scheme. Among these were improvements in export projections; the emphasis on policy performance; the fact that not all developing countries would qualify for assistance; the offsetting of overages against shortfalls; the use of the Fund's compensatory financing facility; the use of other available foreign exchange resources; and feasible internal adjustments that would not disrupt development programmes (pp. 70-71).

(c) It was considered indispensable that more precise information be made available concerning the manner in which the annual requirements of the scheme were estimated, including the weight given to the use of overages and additional estimates of the incidence of the enlarged IMF compensatory financing facility.

(d) It was suggested that the resources available from particular donor countries **might be affected by their** balance of payments positions, and that the need for supplementary financing might well be greatest at times when donor countries were themselves in difficulties. The latter consideration might apply with particular force to primary producing donor countries.

(e) It was pointed out that possible changes in the requirements of the scheme might occur as total exports of participating countries increased, making it likely that unexpected shortfalls would increase in magnitude. Some factors which would counter such a tendency were cited: experience gained by the Agency and participating Governments in estimating expected export earnings; changes in the composition of exports of developing countries, particularly the likelihood that exports of manufactures and earnings from invisible items would rise as a proportion of total receipts and thus increase their stability. The conclusion of commodity agreements would also contribute to increased stability of export earnings.

(f) It was considered that the requirements of the scheme would build up only gradually due to the time needed to get the scheme going, and to provide for the necessary prior agreements between the Agency and participating members.

(g) The goal of 100 per cent financing of unexpected export shortfalls of a disruptive nature was felt to be desirable. It was pointed out, however, that such coverage would not be possible if available resources were less than eligible claims. It would therefore be prudent to provide against the possible need to ration the Agency's disbursements. It was suggested, however, that although rationing might be considered as an emergency measure, its possible use should not enter into calculations of the resources required for the scheme.

(h) Rationing might take one of the following three forms:

(i) a pro rata system whereby a country's share in total eligible shortfalls would determine its share in total disbursements by the Agency. It was recognized that this system might encounter difficulties in ascertaining, at a given moment, all the actual and potential shortfalls of a given period;

- (ii) rationing on the basis of needs, as reflected, say, in per capita income; and
- (iii) rationing according to the ability of countries to withstand the disruptive effects of shortfalls, taking account of their reserve positions. It was suggested that any system of rationing should be as automatic in its application as possible. It was also pointed out that there were sufficient elements of flexibility in the scheme to permit the adjustment of eligible claims to available resources so that the second and third forms of rationing would appear to be less appropriate.

(i) A point was made about the "insurance" character of the scheme. If \$300-400 million were to be made available in addition to other aid, it would be for donors and recipients alike to consider whether it should be distributed in the same manner as other aid - in which case the share of each recipient country would be relatively small - or in the manner set out in the scheme, in which case countries experiencing poor exports could receive relatively large amounts.

4. The need to establish a boundary between problems of an economic nature and those which fall within the political sphere in the administration of any scheme

(a) The World Bank scheme provides that before the beginning of the plan period during which a member would have assurance in case of an export shortfall, the Agency and the member Government would agree on a development programme and policies and related issues: that is, there would be agreement on a "policy package" through which the targets on resource mobilization and utilization would be implemented (p.9).

(b) The need to avoid infringing upon the national sovereignty of member countries is fully recognized. At the same time it was noted that the modern world economy is highly interdependent and freedom of action in the economic field is not absolute. Countries desiring external finance, whether basic or supplementary, would therefore expect to reach agreement on certain aspects of their development programmes with those undertaking to provide such finance. Where existing practice already provides for agreements in connexion with the provision of basic finance, the task of the Agency would be facilitated since the Agency's requirements would be fully consistent with these agreements.

(c) It was suggested that the basic objectives of a development plan lie outside the responsibility of the Agency. There was therefore a need to delimit the area of responsibility of the Agency to the export sector and factors affecting the performance of that sector. A different view was also put forward, namely that the

Agency, without prejudice to the political and social objectives of a development plan, could properly seek to reach agreement by consultation with the developing country on the economic feasibility of its proposed plan; and that, although interest would be concentrated on export performance, other questions of economic policy might be relevant to this.

(d) The scheme provides that a member would qualify for assistance as long as its agreement with the Agency on development policies was being carried out, and it could be shown that the export shortfall was beyond the country's control. It was agreed that on the basis of this criterion, a country would be eligible for supplementary finance as long as it followed agreed policies, even if the targets of the plan were not actually achieved.

(e) The question was raised whether the Agency and participating countries might not encounter some difficulties in reaching agreement concerning commitments to implement development programmes and the assessment of good performance.

(f) There were questions about the number of countries whose development planning, comprehensive or partial, would be sufficiently advanced to make them eligible for membership in the scheme.

5. Questions relating to the methodology to be applied in the formulation of the projections and the technical assessment of the policies on which the development plans of individual countries are based, the circumstances which may give rise to a claim on the scheme, and the circumstances which the Agency should take into account in dealing with such a claim

The need for export projections

(a) The drawing up of any development plan necessarily involves taking a view of export prospects, especially since projected expenditures under a plan imply the need for a certain level of imports which can be financed out of the foreign exchange that is expected to become available. Unexpected export shortfalls are therefore apt to prejudice the achievement of the plan. Since the scheme is designed to deal with "shortfalls from reasonable expectations" (p. 28), some quantification of "reasonable expectations" is indispensable.

(b) The fear was expressed that because of the inherent uncertainty of the future and unreliability of data, projections of exports may be wide of the mark. Therefore, it was suggested that export projections be used solely as a certain guidance for development planning but not as an agreed basis for the calculation

of export shortfalls for the purpose of the scheme. Instead, it should be possible to identify export shortfalls at the time when they materialize, taking into account export performance in the current year and in the preceding periods.

(c) It was suggested on the other hand that while the fact of uncertainty about the future and its effects on the accuracy of projections must be recognized, that very uncertainty was the cause of unexpected export shortfalls and hence a major justification for the scheme. Moreover, some projection errors may tend to cancel out over a period of time.

Methodology of projections

(a) The scheme proposes that export projections would be based on an analysis of market conditions for major export commodities. Apart from an analysis of factors influencing the evolution of demand and supply, account should be taken of the probable effects on exports of any new policies that a country might adopt to alter the existing export trend.

(b) In the administration of its compensatory financing scheme, the IMF measures short-term export shortfalls from the estimated medium-term trend value of exports for the year for which the shortfall is calculated. The medium-term trend value is defined as the annual average of the five years beginning two years before, and ending two years after, the year for which the trend value is calculated. Since exports for the last two years of this five-year period are unknown at the time of the calculation, the Fund estimates the trend value partly by direct forecast of the two years in question and partly by using a weighted average of actual exports of the first three years of the five-year period, the weights being chosen for their predictive power as shown by regression analysis.

(c) In so far as direct forecasting is employed by the Fund, the methods used are not basically different from those employed by the Bank for its longer-term projections. The average level of exports predicted by the Fund for the two years following the shortfall year is, however, subject to certain predetermined limits, in that it is assumed not to exceed by more than 10 per cent the average level of exports experienced in the two years preceding the shortfall year and not to fall below the level of exports experienced in the shortfall year itself.

(d) It was considered advisable for the World Bank and the IMF to pool their experience in forecasting exports. It was also pointed out that the World Bank has had extensive experience over many years in making export projections directly based

on commodity studies. Both institutions are, therefore, now utilizing the same approach and it is expected that the Supplementary Financing Agency would take full advantage of the work of the two institutions in this field.

6. The appropriate period of time for which the relevant projections of exports should be established and for which the concomitant obligations of the Agency and the developing country concerned respectively should be assumed.

(a) The question was raised whether projections over an extended period could be relied upon for determining financial obligations under the scheme, particularly since the financial resources available were likely to be limited.

(b) On the other hand, it was pointed out that if the scheme were to succeed in its stated objective, export projections would have to be made for a period coinciding with the time-horizons of development plans, which were usually drawn up for periods of four to six years.

(c) There was some discussion of the possibility of a radical change in demand conditions for a given export commodity arising, for example, from the development of a new synthetic. The view was expressed that even if export expectations had been agreed with the Agency, a radical change might call for revision, but this view was criticized on the grounds that this was the kind of risk against which the scheme was designed to insure. It was also pointed out that the long-term prospects for commodities do not alter radically with great speed; development of a synthetic may gradually erode, but will not suddenly remove, the market for a commodity.

7. The relationship between supplementary financial measures and other types of economic assistance both multilateral and bilateral with particular regard to the need to ensure compatibility between them as regards the terms, conditions and criteria on which they are to be provided

(a) Both the compensatory financing facility of the Fund and the proposed Supplementary Financing Scheme are designed to deal with shortfalls in export proceeds. However, while the Fund's compensatory financing facility is designed to compensate for fluctuations about a medium-term trend, the Supplementary Financing Scheme would compensate for shortfalls from reasonable expectations of export proceeds so as to avoid disruption of development programmes. Since the two types of shortfall may be closely interrelated, intimate co-operation between the Fund and the Agency would clearly be required.

(b) Where there is uncertainty as to the nature of a shortfall at the time of its occurrence, it would be natural to have recourse to the Fund's compensatory financing facility in the first instance. The view was expressed that this would be the normal case. It was also suggested that persistence of the shortfall would then indicate the need for supplementary financing in addition. Where, however, it is clear from the outset that the shortfall is of a persistent nature, immediate access to supplementary financing would be appropriate.

(c) In some instances, it might be appropriate for a country to draw upon its ordinary credit facilities in the Fund or upon its reserves before obtaining assistance from the Supplementary Financing Scheme. In such a case, however, it was considered that the Fund's views on the reserve needs of the country concerned should prevail. Moreover, the supplementary financing could not necessarily be regarded as the residual element. Where a country draws on Fund resources as well as on the Supplementary Financing Agency, residual financing would be a joint function of the two institutions.

(d) It was suggested that under UNCTAD recommendation A.IV.18 a country should not have to go beyond the utilization of the compensatory financing facility of the Fund before qualifying for supplementary financing.^{1/}

(e) Attention was drawn to the fact that it was normally considered appropriate to use the compensatory financing facility and other facilities of the Fund only for short-term purposes. Under the Bank staff proposal, however, it may turn out that the IMF facilities are in effect utilized to deal with export shortfalls of a persistent character which should more appropriately be financed by long-term funds. It was doubtful whether a country should be called upon to borrow short for long-term purposes. On the other hand, it was suggested that at the time an export shortfall occurred, it would often be impossible to tell whether the cause was of a short-term or of a persistent character.

^{1/} Paragraph II.4 of Annex A.IV.18 of the Final Act of the United Nations Conference on Trade and Development reads as follows: "The scheme should normally be applicable after a developing country had had recourse to the International Monetary Fund, under its compensatory financing facility, and it had been possible to make a full assessment of the nature, duration and implications of any adverse movement in the export proceeds of the developing country concerned."

(f) The question was raised as to whether the scheme could be used to refinance short-term borrowings, notably drawings from the Fund. It was agreed that this matter should be given further consideration. It was however, pointed out that where a country entered a planning period with Fund borrowings outstanding from the previous periods, the finance plan would reflect that fact, and the provision of basic finance would be adjusted accordingly.

(g) The World Bank study implies that resources provided for the scheme would be additional to those available for basic development finance. Indeed, the scheme rests on the assumption that there would be a prior indication of the level of basic finance available to support a development plan, stretching usually over a period of four to six years. The view was expressed that close collaboration between the Agency and, for example, consortia or consultative groups would therefore be desirable.

(h) Concern was expressed that, considering the existing trend of external assistance, resources allocated to supplementary finance may be at the expense of the normal flow of basic finance. It was also indicated that Governments would wish to give priority to the replenishment of IDA and would be able to consider resources for supplementary finance only in the light of the scale, terms and conditions of IDA replenishment.

(i) Doubts were expressed whether firm prior assurances would be forthcoming not only with regard to the overall volume of finance for the developing countries as a whole, but also for individual countries for periods as long as four to six years. It was suggested, however, that this situation already existed, that developing countries had to adapt their plans to it and that the scheme was not designed to deal with it.

(j) The scheme suggests that in granting assistance to a member, the Agency would also take into account the possibilities of using other sources for offsetting shortfalls, for example, the emergency foreign trade loans of the United States Export-Import Bank, the programme loans and the Food for Peace Programme of the United States Agency for International Development, the World Food Programme, etc. (p. 8). The authors of the scheme did not, however, intend that the Agency would insist on recourse to particular bilateral sources of help before granting assistance. The intention was that agreement on other possible sources of help to be tapped in the event of an export shortfall would emerge in the course of periodic consultations between the member and the Agency.

(k) The question was raised as to what would be the attitude of the Agency toward help from other sources if such credit was available only at higher interest rates or had a shorter maturity period. It was suggested that the Agency, following existing World Bank practice under its Charter, should provide assistance if help from other sources was not forthcoming at reasonable terms and conditions.

SECTION II

Studies requested by the Group during its first session

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

ANNEX AQuestions raised by the French delegation in the Intergovernmental
Group on Supplementary FinancingI. Evaluation of export projections and measurement of shortfalls

Could the Bank and the Fund agree to apply a single method of calculating shortfalls in order to avoid costly duplication and contradictions in diagnosis and solutions?

Could the Bank work out a method of calculation that would permit deduction from the measured shortfalls of surpluses recorded under the headings of manufactures and invisibles, the word "surplus" to be taken to mean any growth beyond the level attained when the supplementary financial measures are introduced?

Could the Bank specify the nature of the controls that the Agency might apply to statistics of real exports to ensure that donor countries do not compensate participating countries for fictitious export shortfalls?

II. Provisions for financial stabilization of development programmes

What data does the Bank think the executive agency should have available - particularly in regard to external financial assistance - in order to reach agreement, with a developing country desirous of participating in the supplementary financial scheme, on its development programme and policy for a period of three to five years?

III. Concept of surplus and compensation of shortfalls

Since surplus is a statistical concept and supplementary financing is an accounting or financial concept, might the Agency not in fact be constrained to replace the principle of deduction of surpluses by a detailed supervision of the management of foreign exchange reserves by recipient countries and of their import policies?

IV. Effect of shortfalls on development plans

Since a shortfall will not necessarily affect the financing of a country's development plan, especially where the basic finance is provided from other sources, through foreign loans or domestic public or private savings, could the Bank specify the methods of calculation that the Agency would use to determine the amount of supplementary financing to be granted?

When the Agency observes that the development plan is held up both by an export shortfall and by a lack of basic finance from domestic or external sources, or by some other political or technical problem, how will it be able to determine what part of the delay is due to the shortfall, and hence calculate the amount of supplementary financing to be granted?

As the Bank advocates a system that includes developing countries whose plans are incomplete, how does it propose in these cases to measure what degree of disorganization of a plan which is by definition incomplete is attributable to an export shortfall?

V. Probable cost of the machinery

Can the Bank explain how it has reduced the annual cost from \$1,600 billion to \$400 million, and in particular specify whether the figure of \$400 million represents a "cruising" or a "take-off" rate of expenditure?

VI. Terms of lending

What criteria will the Agency adopt in establishing the terms governing the loans granted under the heading of supplementary financing?

ANNEX B

Note by the delegation of the United Kingdom

Discussion of the problems connected with Supplementary Financial Measures in the Committee on Invisible and Financing related to Trade and the Intergovernmental Group has so far been in general terms. The United Kingdom representatives believe that it may be helpful to show how those problems might arise, and have therefore produced a brief account of how in their view the scheme might work in practice. These notes may of course require modification in the light of discussions presently taking place, and of further material being prepared by the Bank.

How the scheme might work

1. A country would submit to the Agency its proposed development programme covering a period of, say, five years. The plan would set out inter alia target rates of growth for GNP and for exports, the latter based on given assumptions about the market for its main products, together with at least the elements set out on page 48 of the Bank Study.
2. The development plan would be discussed with the Agency, simultaneously perhaps with discussions in other multilateral meetings with donor countries which would be concerned with the total need for aid.
3. The export assumptions would be discussed with the Agency and, if necessary adjusted in the light of an agreed evaluation of world market prospects. The agreed projections would then be adopted as the reasonable expectation for the five-year period.
4. The development plan should now be consistent not only with the agreed export projections, but also with realistic expectations about the availability of domestic and external resources in general, and of foreign aid in particular. The plan should be devised with sufficient flexibility to meet the contingency that some of these latter expectations may not be fulfilled.
5. The country would achieve an understanding with the Agency as to how much of its other possible sources of finance (reserves, IMF compensatory finance, etc.) it would use annually in the event of a subsequent export shortfall or other balance of payments difficulties. It would indicate the measures to economize foreign exchange it might adopt in these circumstances. The country would also agree in general as to the measures required to ensure the success of its plan.

6. (a) If in the first year of the plan the value of its exports were greater than the projected value, it would be noted that the country had experienced an overage and it would neither receive anything from the scheme nor pay anything to it. The Government would have to ensure that the overage became available to it through, for example, some form of taxation or, at any rate, take account of the fact that compensation for future shortfalls might be diminished as a result of the overage.
(b) If its exports were less than the projected value, a "gross shortfall" would be recorded and it would be entitled to supplementary finance from the scheme after having used the previously agreed amount of alternative finance, and put into effect the agreed measures to economize foreign exchange.
7. The Agency, satisfied that the conditions of the scheme had been met (and assuming its own financial resources to be adequate) would disburse to the country an amount equal to the "net shortfall" - the gross shortfall minus alternative finance and the result of the agreed economies in foreign exchange.
8. In any subsequent year, the net shortfall would be calculated in relation to the gross shortfall, if any, minus alternative finance and accumulated overages, if any. The accounts would be adjusted as necessary, to ensure that the country's total receipts from the scheme over the whole period were no more than the sum of all its gross shortfalls, minus all alternative finance, all the economies of foreign exchange and all overages. (This might be adjusted by any refinancing of short-term credits that the Agency would be empowered to undertake.) On the other hand, if total overages exceeded total gross shortfalls minus total alternative finance, the country should on balance receive and pay nothing. It would have to bear in mind that the overages experienced during the period would be taken into account as an offset to the shortfalls occurring later during the period.
9. At the end of the period the books would be closed and the process would begin again with the country's next plan.

ANNEX C

A comparison of the IMF Scheme for Compensatory Finance and World Bank staff proposals on Supplementary Financial Measures 1/

IMF scheme

World Bank staff proposals

Objective of the scheme

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| <p>1. The IMF scheme seeks to offset the adverse effects on balance of payments of "members, particularly primary exporters" brought about by temporary export shortfalls which are "largely attributable to circumstances beyond the control of the member" (p.41).</p> | <p>1. The IBRD scheme is expected to provide long-term assistance to developing countries in the event of unexpected export shortfalls from reasonable expectations. The scheme is designed to help developing countries overcome the problems of unexpected export shortfalls that "result in disruption of sound development programmes" (p.1).</p> |
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Measurement of shortfall

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| <p>2. To measure temporary shortfalls in exports, the IMF in conjunction with the member concerned, will seek "to establish reasonable estimates regarding the medium-term trend of the member's exports based partly on statistical calculations and partly on appraisal of export prospects" (p.41). The medium-term trend value for any given year is defined as "the average of actual exports for five years beginning two years before and ending two years after the year for which the trend value was calculated" (p.5). "In order to give members some assurance that estimates of the trend value of exports will remain within a certain predictable range, "in calculating the trend, "the average level of exports predicted for the two years following the shortfall year will not be assumed to exceed by more than ten per cent the average level experienced in the two years preceding the shortfall year and will not be assumed to be less than the level of exports experienced in the shortfall year itself." (p.8).</p> | <p>2. In the IBRD proposals, the Agency's initial understanding with the member will include an agreement on export expectations spelled out in the form of a precise projection which is an integral part of a development programme. Export projections will be based "on the analysis of major export commodities" (p.30) and projections will cover both merchandise exports as well as, where appropriate, invisible items (p.8). Reasonable expectations are thus established prior to the shortfall rather than <u>ex post</u>. No judgement regarding the short-term character or persistency of shortfall is required. The duration of the export forecast would be "synchronized with the appropriate time-horizon of planning in the member country - normally within a range of four to six years" (p.9). Since the forecast is an essential part of the development programme it should be subject to revision only as part of a total recasting of the programme. A shortfall which is eligible for financing under the scheme emerges if</p> |
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1/ Reference to the text in the case of IMF Scheme are to the Second IMF Report on Compensatory Financing of Export Fluctuations; those in the case of the World Bank Staff Proposals are to the study Supplementary Financial Measures (TD/B/43).

actual exports in a given period are less than the projected exports while the member has been effectively implementing the policy package which it initially agreed with the Agency.

Conditionality

3. Under the compensatory finance scheme, the IMF will finance an export shortfall measured as stated above only if it "is largely attributable to circumstances beyond the control of the member" (p.30) and also that "the member will co-operate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties" (p.30). The Fund states that in interpreting the last condition in the past, it "has not attempted to reach agreement with the member on what the nature of these solutions would have to be. This has been left to subsequent discussions, and has not stood in the way of prompt action on requests for compensatory drawings" (p.16). Of course, the Fund scheme is intended to finance only short-term export shortfalls. However, the definition of the medium-term trend itself tends to ensure that any departures from it are of temporary duration so that every shortfall so determined is of temporary duration.
3. The IBRD scheme assumes that the export shortfall as determined above would be considered to be due to factors beyond control only if the member was effectively implementing the understanding with regard to development policies and programmes initially arrived at in agreement with the Agency. As long as the country is following these agreed policies all unexpected shortfalls would be interpreted as being beyond the country's control and the Agency would be under the obligation to provide adequate financing in order to save an agreed development programme from disruption.

Relation of financing to shortfalls

4. Export shortfalls which are considered to be of a temporary duration and are due to factors beyond a member's control can be fully financed by the IMF scheme subject to the following provisions:
- "Drawings outstanding ... may amount to 50 per cent of the member's quota provided that (i) except in the case of shortfalls resulting from disasters or major emergencies, such drawings will not be increased by a net amount of more than 25 per cent of the member's quota in any 12-month period, and (ii) requests for drawings which would
4. The amount of financing provided under the scheme would be in most cases "less than the amount of export shortfall in accordance with prior understanding between the member and the Agency, by deducting (a) accumulated overages; (b) other drawings on a member's own reserves, where feasible; (c) use of the IMF compensatory financing facility, or other credit or grant facilities, if available, and (d) that portion of the shortfall that could be absorbed by the country without disruption of the development effort" (p.66).

increase the drawings outstanding ... beyond 25 per cent of the member's quota will be met only if the Fund is satisfied that the member has been co-operating with the Fund in an effort to find, where required, appropriate solutions for its balance of payment difficulties" (p.30).

Terms of lending

5. The assistance from the IMF is in the nature of short- and medium-term help to be repayable in 3 to 5 years. In addition, the Fund now recommends that "as soon as possible after the end of each of the four years following a drawing ... the member repurchase an amount of the Fund's holdings of the member's currency approximately equal to one half of the amount by which the member's exports exceed the medium-term trend of its exports" (p.31). Refinancing of Fund loans under the scheme is possible in that "whenever the Fund's holdings of a member's currency resulting from an outstanding compensatory drawing ... are reduced, by the member's repurchase or otherwise, this will restore pro tanto the member's facility to make a further compensatory drawing ... should the need arise" (p.31).
5. Assistance from the scheme, in a given projection period, will be in the nature of a long-term debt. However, the scheme also provides that to the extent that shortfalls materializing in the initial phase of the projection were offset by the scheme, the member would have to reimburse the Agency if initial shortfalls were followed by overages during the same projection period (p.41). It is proposed that "the Agency should base the terms of its finance - the rate of interest as well as maturity - on the overall financial and economic position of the member. "The scheme allows for the possibility that the terms of finance should be geared to the debt servicing capacity of the member country as well as other relevant factors" (p.59). "Although the terms would vary from case to case, the scheme should be prepared to extend funds on concessional terms in many countries" (p.60). "By and large, it may prove reasonable to extend assistance under the scheme on about the same terms at which the country is obtaining development finance for other purposes" (p.60).