Friedman UNCTAD Files - Geneva Mtg. of Intergov't Group on Suppl. Finance Oct. 1966

INTERGOVERNMENTAL GROUP ON SUPPLEMENTARY FINANCING
Geneva, 10-14 October 1966.

ARGENTINA	Señor D. Horacio Anibal Alonso, Subgerente de Investigaciones Económicas, Banco Central de la República Argentina, Buenos Aires, Argentina.
FEDERAL REPUBLIC OF GERMANY	Mr. Koinzer, Federal Ministry of Economic Affairs, Bonn, Federal Republic of Germany.
	Mr. Schuessler, Federal Ministry of Economic Affairs, Bonn, Federal Republic of Germany.
	Dr. Schulte, Federal Ministry of Finance, Bonn, Federal Republic of Germany.
POLAND	Mr. W. Plawecki, Deputy Director, Ministry of Finances, Warsaw, Poland.
SWEDEN	Mr. L. Myrsten, Head of Section, Ministry of Finance, Stockholm 2, Sweden.
	Mr. H. Ewerlöf, First Secretary of Embassy, Permanent Delegation of Sweden, 91-93, rue de la Servette, 1211 Geneva 7.
	Mr. B. Wrangmark, Head of Section, Board of Commerce, Birger Jarls torg 5, Stockholm C, Sweden.
	Mr. B. Kjellén, First Secretary, Ministry for Foreign Affairs, Stockholm 16, Sweden.
UNITED KINGDOM	Mr. J. Mark, Under Secretary, Ministry of Overseas Development, Eland House, Stag Place, London, S.W.1.

UNITED STATES OF AMERICA

Mr. Jo W. Saxe,
Associate Assistant Administrator for
Multilateral Aid Programs,
AID,
c/o Department of State,
Washington, D.C.
U.S.A.

* * * * *

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Mr. Irving S. Friedman,
Economic Advisor to the President,
International Bank for Reconstruction and Development,
1818 H Street, N.W.,
Washington, D.C. 20433,
U.S.A.

Mr. P. H. Pereira Lira,
IBRD.

Mr. B. N. Jalan,
IBRD.

INTERNATIONAL MONETARY FUND

Mr. J. Marcus Fleming,
Deputy Director,
Research and Statistics Department,
International Monetary Fund,
Washington, D.C.,
U.S.A.

Mr. Asahiko Isobe,
International Monetary Fund,
58, rue de Moillebeau,
1202 Geneva.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

OFFICE OF THE PRESIDENT

Who is in charge,
Sarnes or Sundrum?

Are you planning to xxxxx issue a document for circulation on the Geneva Intergovernmental Group?

(Fund report attached)

Will UNCTAD

issue Report?
Arch Dell draft proposals?

FORM No. 75
(2-60)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

INTERNATIONAL DEVELOPMENT
ASSOCIATION

ROUTING SLIP	Date October 26, 1966

NAME	ROOM NO.
Mr. Irving S. Friedman	1223

	To Handle		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment		Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		Send On

REMARKS

The attachments referred to in the enclosed memorandum were circulated with an earlier memo on "Papers to be Presented to the Intergovernmental Group" dated October 19, 1966 from Messrs. P. Pereira Lira and Bimal Jalan to Mr. Friedman.

From

B. Jalan

FORM NO. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman DATE: October 25, 1966

FROM: A. M. Kamarck, P. Pereira Lira and B. N. Jalan

SUBJECT: The First Meeting of the UNCTAD Intergovernmental Group on Supplementary Financing - Geneva, October 10-14, 1966

General

1. The Intergovernmental Group met in Geneva from October 10 to October 14, 1966. To the 13 members elected from among groups of developing and developed countries at the meeting of the committee on financing and invisibles in April (e.g. Argentina, Brazil, Ceylon, Ghana, India, the U.A.R., Yugoslavia, France, Germany, Japan, Sweden, the U.K. and the U.S.), the Soviet bloc added Poland as a member to the Group. They have another seat, but haven't yet elected to fill it.

2. The U.A.R. was not present at this first meeting; for what reasons, the Secretariat was unable to tell us. The recent events in the U.A.R. and uncertainty following these perhaps accounts for the absence. Yugoslavia, though represented by a member of its Permanent Mission in Geneva, was unable to actively participate in discussions because of the sudden illness of Mr. Marmolja, its designated representative. At the end of the meeting, however, Yugoslavia assured the Group of its continued deep interest in the Scheme.

3. The meeting got off to a slow start because of the inability of the Group to elect a Chairman. We gathered that the preference of the Group was for India or Yugoslavia; but India could not accept it because it had only one person on its delegation, and Yugoslavia did not turn up. In the end, by an informal arrangement Everts of Netherlands took the chair on the first day and Saxe of the United States chaired the meeting for the rest of the session. But neither of them was elected Chairman of the Group; the election was postponed until the next meeting of the Group which is supposed to take place in the second week of February. In addition to this February meeting, a third and last meeting of the Group is planned in late May or early June.

4. In view of the dates set for the next two meetings, it seems probable that the Group will be able to make only an interim report on the progress made to the Committee on financing, which is scheduled to meet in April. Dell of the Secretariat had suggested that the Group might decide to make its final report to the Second UNCTAD directly; and there was tentative agreement among members of the Group that this may well be the course that they would have to adopt. There was some talk at the beginning that the Group may be able to hold its second meeting in December and the third one in February which would enable it to come up with a final report for the use of the Committee; but it was decided to postpone the meeting of the Group so that they may have more time to consider the papers that they expect to receive from us on the work that we are already doing as well as some further work that they have asked us to undertake.

5. Requested by the Chairman (Everts) to make a statement, Mr. Pereira Lira (who was speaking for the Bank in the first two days in the absence of Mr. Kamarck who arrive on the third day) indicated the kind of papers we were working on. These were (i) calculation of shortfalls and overages (ii) the question of form and terms of assistance (iii) relation between supplementary financing and other sources of finance (iv) policy package and performance (v) export projections (vi) data on invisibles and import prices. As to the dates when these would be available, Mr. Pereira Lira indicated that the papers (i) and (iv) could be ready in three to four weeks, but a little more time may be needed for the preparation of others. During the course of its discussion on financial amounts required to run the Scheme, the Group expressed considerable interest in having a paper from the Bank which would explain how we arrived at the $300 and $400 million figure. We agreed to provide them with a paper which would explain this.

6. In addition to the above, the Group requested a number of subjects on which they would like some further work to be undertaken. A list is attached. Of these items the Bank is supposed to be responsible for (1) on 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 (this was a combination of requests by the U.S. and Germany) and item (5) on Bank calculation of the financial requirements of the Scheme. The Fund is supposed to be responsible for item (3) requesting revision of a table in its 1963 Report on Compensatory Financing Facility and item (6) which asks for "an estimate of the effects of recent changes in Fund's compensatory financing facility on the annual cost of the Scheme." The Secretariat is supposed to be responsible for item (4) on export projection; item (2) invited the Bank and the Fund for views "they may feel able to express on how supplementary finance would fit into the existing financial system."

Discussion of the Group

7. The discussions of the Group were centered around the questionnaire (enclosed) prepared by the Secretariat based on the issues raised in the April meeting of the Committee on financing. These issues were grouped under various subject headings following the terms of reference of the Group. After the first day's discussion on overages, import prices etc. it was felt that the sequence in which these issues were grouped did not follow any logical order and it was therefore considered desirable to alter the order in which various subjects were to be taken up by the Group for discussion. They summary of the discussion here follows the order in which various issues were taken up for discussion.

(i) Overages, Import Prices and Invisibles

8. On import prices and invisibles, most of the discussion was centered on whether sufficiently reliable statistics were avilable to make possible their inclusion in the supplementary finance shceme. The developing countries were generally in favor of taking some account of price changes for imports, but with the exception of Ceylon, the issue did not arouse either strong support or strong opposition. Of the developed countries, the U.K. thought that it was

possible to take some account of import prices, and logically the Scheme should do that; Japan was against it because of the non-availability of statistics; Germany thought that it should be left to the discretion of the Agency and should form a part of the Agency examination of the "appropriate economic circumstances" related to a shortfall. The question whether invisibles should be included or not depended mainly on how good the statistics of this item were, and no definite opinions were expressed either way. The treatment of "overages" in the IBRD staff study did, however, arouse a lot of comments and suggestions. Mr. Pereira Lira speaking for the Bank clarified the issues involved. A conference document summarizing the question raised on import prices, invisibles and overages is enclosed.

(ii) Export Projections

9. The main concern of the Group was methodological--what was the difference between Bank and Fund methods of calculating the shortfall, and why; the Secretariat, in response to a request from Japan prepared a document comparing the Bank and the Fund Scheme after consultation with the Fund and the Bank representatives (enclosed). Germany was particularly anxious that projections should be revised more often, and was generally in favor of the IMF way of calculating a shortfall after the event. Germany and Japan wanted the Bank and the Fund to prepare a joint paper on methodology, but it was finally decided during private conversations that this should be left to the Secretariat. In the discussions there was a general consensus that for the purposes for which the Scheme was designed, a long-term projection was necessary and that the differences between the Bank and the Fund methodology could be explained by the different purposes they were designed to deal with. A conference document prepared by the Secretariat and listing various questions raised on export projection is enclosed.

(iii) Policy Package and Performance

10. There was no opposition to the point of view expressed in the Staff Study - that assistance from the Scheme should be related in some way to "performance" on the part of developing countries. Nor was there a disagreement in principle to the idea that elements of this may be embodied in a prior understanding with the Agency. The main question that was raised was with respect to the content of this policy package - there was a very strong feeling on the part of developing countries who were joined by U.K. and Sweden that this policy understanding should be confined to policies that had some impact on the export sector. The Japanese were particularly worried about the political feasibility of having such a policy package, while the Germans definitely wanted a post-shortfall examination of the country's policies and the nature of the shortfall in order to determine whether a country qualified. The questions raised fell mainly under these headings - (a) distinction between policy and performance (b) nature of the commitment that the developing countries would have to undertake and (c) what has been the nature and extent of the Bank experience in this field. It was suggested that the Bank should elucidate some of these points in writing, and great stress was placed on documenting the Bank's experience in the form of a paper for the Group. The questions on this subject were summarized in the form of a conference paper which is enclosed.

(iv) Adjustment Process

11. Here again the discussion was not whether some adjustment following a shortfall was desirable but what the form and timing of this adjustment should be and how was it to be achieved in practice. Did this adjustment relate to development program or development policies? Would the Agency advise in adjustments to be undertaken after the shortfall or before it? U.K. and Brazil felt that desirable adjustments should be confined to the export problems of the Plan. The Fund representative felt that adjustments under the Scheme should not interfere with the Fund criteria for balance of payments adjustment (see below). There was some question as to how the Fund and Agency collaboration with respect to policies and adjustment would work out in practice. Mr. Kamarck, speaking for the Bank, explained how the system of cooperation between the Fund and the Bank worked and how in reaching economic conclusions in the Bank about a country's policies Fund's views were sought and adhered to in matters falling within the Fund's area of activity. A conference paper incorporating various comments and questions under this item is attached.

(v) Financial Requirements of the Scheme

12. The main question here was, of course, how the Bank arrived at the \$300-400 million figure. (The paper that we had prepared on the explanation of this figure was earlier given on a personal and confidential basis to the representatives of developed countries in response to corridor questioning on this subject.) Everyone agreed that though one could not have scientific accuracy in any estimate of the future, one should at least have some reasonable explanation of the factors behind the Bank figure. This sentiment was particularly forcefully expressed by the Japanese and the Germans. They along with the U.K. voiced their complete reservation against any Scheme which might imply open-ended commitments - this view was apparently shared by other developed countries.

13. There were some other questions - what difference did the revised compensatory financing facility make to the estimate given in the study? Did the estimate relate only to the "initial period with the implication that after the first five years the need for resources to run the Scheme could be much greater? What assumptions were made about the extent of membership, and why? Breakdown of allowance for overages and IMF facility? How do we justify the use of short-term funds (e.g. IMF) to partially cover a shortfall when the rationale of the Scheme was that shortfalls which disrupt long-term development should be met by long-term funds? These and other questions are summarized in a conference paper which is enclosed.

whos?

14. Mr. Kamarck, replying for the Bank, gave a qualitative analysis of the judgements underlying the \$300-400 million figure. In the course of this he indicated the work that the Bank was doing in the commodity field especially towards improving projections as well as the work being done in the field of performance. As for what the drawings under the Fund would be if the Scheme were to be established, we looked to the Fund for providing an estimate. On the use of bilateral emergency assistance, the governments with such programs were of course the best to come forward with an estimate. On the use of short and long-term funds, Mr. Kamarck suggested that any difficulty arising out of repayments due to the IMF could be taken care of in the overall examination of the

financing plan of a country by donors at the beginning of the next planning period. If, however, the shortfall turned out to be a persistent one and the repayments to the Fund fell due within the same planning period, the possibility of refinancing from the Scheme was not precluded. But this was a judgement which the countries participating in the Scheme would have to make. There seemed to be a general consensus (following the interventions by Germany and U.S.) that use of the Fund in the first place was justifiable and appropriate since the shortfall could turn out to be a reversible one; if it didn't, some refinancing arrangement under the Scheme or in essence through basic development finance would have to be provided for. France felt that refinancing provision should be applied only in exceptional cases since otherwise the Scheme could be used to meet the general problem of consolidation and rescheduling of debts.

15. India had already expressed its agreement with the Bank estimate, Sweden found the Bank explanations convincing. Others felt that it was yet too vague, and wanted to see a more quantitative breakdown of various factors involved. U.K. introduced the subject of rationing since one could never be sure that, whatever the amount, the Scheme would be able to meet all claims against it. There was a feeling that though 100% coverage of "net" shortfall was desirable, some provision should be made for rationing, even though it might prove to be an unlikely eventuality. There was no agreement on the most desirable method of rationing, but it was felt that an element of flexibility should be maintained in whatever the method used. The view was also expressed that in arriving at an estimate of resources required for the Scheme, one should not start with the assumption that financing provided by the Agency would be rationed. The provision for rationing should be operative only under the most exceptional circumstances rather than being the general rule.

(vi) Relationship Between Supplementary Finance and Basic Finance

16. Discussion on this subject, though brief, was broad and discursive, and tended to focus on the overall advantage, if any, of a Scheme such as this in relation to the total picture of development finance. Ghana, while for the Scheme, was worried that basic finance itself might not be forthcoming; Japan was impressed by the supplementary nature and conditionality of the Scheme, while Sweden thought it would make a definite contribution to widening the area of international cooperation in the field of aid. U.K., forthrightly and embarrassingly for some, suggested that for its success, the Scheme required a fairly thorough discussion and definite understanding regarding the flows of basic development aid but concluded that even with present practice the developing countries had learned to live with the partial assurances they got on basic finance. There were no reactions to this from other developed countries.

(vii) Terms and Conditions

17. Mr. Kamarck explained the thinking of the Bank on the terms of supplementary finance, emphasizing that these should be concessional and tailored to the needs of individual developing countries. There was no basic disagreement from this position, except from Japan (Germany did not express a view) which thought that they should be shorter, though the interest rate charged could be fixed according to the debt-servicing capacity of the borrower. There was,

however, some discussion of what exactly was meant by "on similar terms as basic development finance" - were these average terms over a period of time or for the latest year only; did these correspond to actual terms or ideal terms? Mr. Kamarck said that the terms should be those that economic appraisal of a country and its prospects indicated as appropriate for finance of its development program. In this connection, he also explained the present practice of the Bank whereby a variety of terms for different groups of developing countries (within certain limits) were obtained by varying the Bank/IDA mix in the total volume of lending to a particular country.

(viii) Comparative Effect in Economic Development of the Scheme Proposed and other Methods

18. There wasn't much discussion on this. France, in fairly moderate terms, explained its preference for a general organization of markets. It, however, felt that the proposed Scheme far from being contradictory was complementary to it, though it feared that the existence of the Scheme might reduce the willingness of the donor countries to accept the organization of markets. Japan emphasized that regard should be paid to the effects of existing and potential Commodity Agreements on Supplementary Finance Scheme since both had common objectives. Ghana wanted a study done on the comparative effects of the Scheme and other measures such as Commodity Agreements on various groups of developing countries belonging to different groups of commodity exporters. This suggestion was, however, dropped since it was felt that such a comparative study would sidetrack the Group from its main purpose, which was the consideration of the proposed Scheme. The U.S. reminded the Group of their interest in the item and the fact that in April they had been anxious to put this point in the terms of reference. They would like to return to a consideration of this point at an "appropriate time".

(ix) Administration

19. There was no discussion of this issue. The U.K. implied and Germany stated that they would like to have the World Bank/IDA run the Agency. But, following interventions by Ghana, Brazil and the U.S., it was decided that an exploration of this item would be premature at this stage.

Position of Delegations

20. There was no basic changes in the position of various delegations from what was witnessed in April. The U.S. is still pretty much on the fence - awaiting a clear assessment of reactions in other countries, especially the less developed ones, though one got the distinct impression that they would like to take their time in arriving at a judgement; however, they wanted work on consideration of the Scheme to move ahead without needless delay. The U.S. representative Jo Saxe made a short statement half-way through the session (and without provocation!) on where the U.S. stood indicating that their first priority was the "nature, condition and scale" of IDA replenishment and that they would like to be sure that the Scheme was the best way of tackling the problem (if there was one) of disruption due to export shortfalls. This would require some further study.

21. There might have been some change in the degree of enthusiasm that the U.K. has for the Scheme - they are still for it but want to be sure that the magnitude of funds needed can be controlled. Sweden once again gave enthus-

iastic support to the Scheme. Germany is worried by the cost particularly that it may rise rapidly in the future. They want the Scheme to work closely with the Fund but it must clearly be administered by the Bank group. Japan did not take a clear position but seemed to feel that something would occur. France was definitely much more moderate than it had been in April, but that may have been due to a change of personnel. Less-developed countries were all in favor, only Ghana raised problems but the Ghanaian representative stated his position as being that of "sympathetic criticism and not constructive opposition"!

The Fund Participation in Discussions

22. The Fund was represented by Mr. Marcus Fleming. Since the Fund, in one way or another, is likely to be fairly intimately involved in the study and operatiion of the Scheme, it may be useful here to record Fund interventions in discussions of the Group in more or less the order in which these were made:

(i) In response to an invitation from the Chairman on the first day, Mr. Fleming explained the changes which have recently been made in the Fund facility, in particular emphasizing the greater reliance now to be placed on quantitative analysis in calculating a medium-term "norm" for a country's exports, which brought the Fund calculation near to the concept of "reasonable expectation" in the Scheme. He said that these changes were not of a fundamental character, although they did constitute significant liberalization of the facility. No regard had been taken of Supplementary Finance Scheme in the present revision, but provision has been made for periodic reappraisal of the facility. If the present proposal became a practical proposition, this would be one of the circumstances taken into account in reviewing the Fund policy.

(ii) During the course of discussions on the "feasible adjustments" required under the Scheme, the Fund made a statement setting out its views on the balance of payments adjustment process. The concept of planning should not be so rigid as to preclude a stretching out or cutting down of the investment targets if it was found that the stipulated level of expenditure was inflationary or more than what the country could finance. In taking measures to adjust to changes in the balance of payments situation, one cannot wait to be sure of the temporariness or persistence of shortfalls, because then one can wait too long. This is the principle which has guided the Fund's policy. The Fund has the responsibility for supervising the use of some of the policy instruments such as adjustment of exchange rates and exchange restrictions, and also some of the internal financial policies which influence the level of total domestic demand. It is important that the initial agreement under the Scheme should be compatible with the Fund's criteria. It should, however, be possible with mutual cooperation and goodwill to devise something workable and practical. The U.K. in this connection pointed out that there was no reason why the Scheme's and the Fund's criteria should be irreconcileable; the Fund in its own work would have to take into account the new element introduced by the existence of the Scheme.

(iii) Questioned about the effect of the revision in the Fund facility on the resources required for the Scheme, Mr. Kamarck had said that the Bank would look to the Fund to provide us with an estimate. Mr. Fleming said that the estimate of the likely use of the facility that the Fund had made for its own operations was not a guide for the Scheme. To arrive at a reasonable estimate, the Fund and the Bank would have to consult each other. But his own guess would be that the revision in the facility would increase the availability of the resources from the Fund by about 50%. This, however, is on the assumption that the Fund facility would remain unchanged if and when the Scheme came into existence. If the Scheme is established, the Fund facility would have to be changed. It is possible that it might be decided to withdraw this facility since it si questionable whether it is sensible to have two systems of compensation working for a country experiencing shortfalls. On the other hand, it is possible that the "norm" used by the Fund would be closer to the export projections under the Scheme, which would increase the amount of drawing on the Fund.

(iv) During the discussion on the use of other sources of finance under the Scheme, Mr. Fleming said that all Fund drawings were made in order to meet balance of payments needs which is judged by the current payments deficit and the reserve situation of the country. In the event of a shortfall, there will have to be close coordination between the Fund and the Scheme in order to decide how much resources would be made available from each since the Fund in making available its own resources had to take into account how much was available from all other sources. In arriving at this decision, the views of the Fund on the reserve position of the country should prevail. Thus, when there is a question of financing from both the Fund and the Scheme, it was no longer correct to say that the Scheme had a residual function. The residual function would have to be jointly exercised. Mr. Kamarck remarked that the Fund's views were quite consistent with our own. In our thinking, even in cases where there was no Fund drawing, the views of the Fund as to the right level of reserves ought to prevail.

(v) There was a proposal that the Bank and the Fund should provide a joint paper on "collaboration and how it would work" if the Scheme were to come into existence. Mr. Fleming said that it was quite difficult for them to work out such a paper because first the staff of the Fund would have to make up its mind about the Scheme and the Fund and the Bank would have to reconcile their views on the matter; then the Board would have to be brought into the picture. Mr. Fleming further remarked that the discussion in the Group on this Fund/Bank question had tended to be just a little superficial and optimistic. There were important policy matters to be considered, and devising a workable formula within which cooperation could be carried out was not so easy as had been suggested. It was, however, later agreed in a private meeting between some members of the Group and the Bank and the Fund that the Group would "invite both the Bank and the Fund to express any views they may feel able to express on how supplementary finance would fit into the existing financial system."

cc: Messrs. Frank
Hulley
Macone
Sarma
Sundrum

September 27, 1966

Mr. Heinrich Ziegler
International Bank for Reconstruction
and Development
4 Avenue d'lena
Paris 16e, France

Dear Heinrich:

I am writing you on the forthcoming meetings concerning the Supplementary Financial Measures.

1. As I told Martin today I would like you to attend the meeting of DAC to be held on October 7 in Paris. No one will come from Washington to this meeting.

2. Thereafter, I would like you to go to Geneva and attend, as an observer, the meeting of the government experts on the Supplementary Financial Measures (October 10 - 14).

Messrs. Friedman, Pereira Lira and Jalan will be there. Please get in touch with them and tell them about your Paris meeting.

I shall be interested to hear about your impressions, both on the meetings in Paris and Geneva.

Best wishes,

Sincerely yours,

Arthur Karasz

Cc. Messrs: Friedman
Pereira Lira

Akarasz:VM

cc M. Friedman

HEADQUARTERS:
WASHINGTON 25, D.C.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
CABLE ADDRESS-INTBAFRAD

INTERNATIONAL DEVELOPMENT ASSOCIATION
CABLE ADDRESS-INDEVAS

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

September 26, 1966

Dear Mr. Consolo:

Further to my letter from Geneva dated September 21, please find attached copy of aletter I received today in Paris from Mr. Choussudovsky; as you will see, the list of participants is still far from complete.

I am sending you this before having received a reply to my above-mentioned letter as, should your answer be in the affirmative, some time might be saved thereby.

I intend to start working on my final report on the Conference today, and will send you a copy on its completion.

Sincerely yours,

Martijn J. Paijmans

Encs.

Mr. Frederico Consolo
Special Representative for U.N.
Organizations
Development Services Department
International Bank for Reconstruction
and Development
Washington, D.C.

Received 9/30

UNITED NATIONS

CONFERENCE ON TRADE AND DEVELOPMENT

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1211 GENÈVE 10

REF. N°: TDO 280/1

22 September 1966

Dear Mr. Paÿmans,

..... In accordance with our conversation on 16 September, I enclose a list of the experts who will be attending the meeting of the Intergovernmental Group on Supplementary Financing.

You will recall that I suggested that the Bank may wish, in order to save time, to send copies of their study directly to the experts. This, of course, would not affect the arrangement whereby the Bank will send to the UNCTAD secretariat an adequate supply of the document in question.

It was a great pleasure to make your acquaintance.

Yours sincerely,

E. M. Chossudovsky

E. M. Chossudovsky,
Assistant Director,
Division for Conference Affairs
and External Relations.

Mr. Martyn I. W. M. Paÿmans,
Liaison Officer,
International Bank for Reconstruction
and Development,
4, Avenue d'Iéna,
Paris, 16e.

INTERGOVERNMENTAL GROUP ON SUPPLEMENTARY FINANCING
Geneva, 10-14 October 1966.

ARGENTINA	Señor D. Horacio Anibal Alonso, Subgerente de Investigaciones Económicas, Banco Central de la República Argentina, Buenos Aires, Argentina.
FEDERAL REPUBLIC OF GERMANY	Mr. Koinzer, Federal Ministry of Economic Affairs, Bonn, Federal Republic of Germany.
	Mr. Schuessler, Federal Ministry of Economic Affairs, Bonn, Federal Republic of Germany.
	Dr. Schulte, Federal Ministry of Finance, Bonn, Federal Republic of Germany.
POLAND	Mr. W. Plawecki, Deputy Director, Ministry of Finances, Warsaw, Poland.
SWEDEN	Mr. L. Myrsten, Head of Section, Ministry of Finance, Stockholm 2, Sweden.
	Mr. H. Ewerlöf, First Secretary of Embassy, Permanent Delegation of Sweden, 91-93, rue de la Servette, 1211 Geneva 7.
	Mr. B. Wrangmark, Head of Section, Board of Commerce, Birger Jarls torg 5, Stockholm C, Sweden.
	Mr. B. Kjellén, First Secretary, Ministry for Foreign Affairs, Stockholm 16, Sweden.
UNITED KINGDOM	Mr. J. Mark, Under Secretary, Ministry of Overseas Development, Eland House, Stag Place, London, S.W.1.

UNITED STATES OF AMERICA	Mr. Jo W. Saxe, Associate Assistant Administrator for Multilateral Aid Programs, AID, c/o Department of State, Washington, D.C. U.S.A.

* * * * *

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	Mr. Irving S. Friedman, Economic Advisor to the President, International Bank for Reconstruction and Development, 1818 H Street, N.W., Washington, D.C. 20433, U.S.A. Mr. P. H. Pereira Lira, IBRD. Mr. B. N. Jalan, IBRD.
INTERNATIONAL MONETARY FUND	Mr. J. Marcus Fleming, Deputy Director, Research and Statistics Department, International Monetary Fund, Washington, D.C., U.S.A. Mr. Asahiko Isobe, International Monetary Fund, 58, rue de Moillebeau, 1202 Geneva.

FORM No. 75
(2-60)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

INTERNATIONAL DEVELOPMENT ASSOCIATION

ROUTING SLIP	Date Sept. 29/66

NAME	ROOM NO.
Mr. Friedman	

	To Handle			Note and File
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REMARKS

From G. Kalmanoff

COPY

Mr. Kalmanoff September 28, 1966

Federico Consolo

UNCTAD: Committee on Invisibles and Financing Related to Trade

1. The Trade and Development Board, which recently closed its Fourth Session in Geneva, has recommended that the meeting of the Committee on Invisibles be postponed to April 1967 (no date fixed).

2. This recommendation is subject to approval by the General Assembly when, during this current Session, it will consider the Report of the Trade and Development Board.

3. The actual date of the meeting would subsequently be fixed by UNCTAD Secretariat: the venue is likely to be Geneva and the duration the usual two/three weeks.

4. You will, I am sure, also inform Mr. Friedman's office.

cc: Mrs. Boskey

FORM No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: September 22, 1966

FROM: Paulo H. Pereira Lira PL and Bimal Jalan BJ

SUBJECT: Papers for the Intergovernmental Group of Experts on Supplementary Finance - Progress Report

Please find enclosed the paper on Commodity Agreements (No.4 of the memo of September 13, 1966) which has been discussed by the group.

After that date, we have already sent you the Policy Package Paper (No.5).

You will be receiving today under separate cover a note on the financial requirements of the Agency - explaining the reduction from the figure of $1,200 million to $300-$400 (No. 6). The complete paper on the financial requirements, including the explanation of the $1,600 million figure and its adjustment to the $1.2 million level will be ready early next week.

On invisibles (No.8) and import prices (No.9), Mr. Macone expects that the statistical material being prepared should be ready for presentation to the Group of Experts when they meet.

cc. Professor Frank
Mr. Hulley
Mr. Jalan
Mr. Macone
Mr. Sarma
Mr. Sundrum

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
Cable Address – INTBAFRAD

INTERNATIONAL DEVELOPMENT ASSOCIATION
Cable Address – INDEVAS

1818 H Street, N.W., Washington, D. C. 20433, U.S.A.
Area Code 202 • Telephone - EXecutive 3-6360

Copy for Mr. Friedman ✓
" to Mr. Demuth
" " " Karasz

Geneva, September 21, 1966

Dear Mr. Consolo,

Today I met briefly with Mr. Chossudovsky of the UNCTAD Secretariat and we talked about the Bank papers on Supplementary Financing which are now being prepared in Washington by Mr. Friedman's group.

As it is desirable for participants at the October meeting of the Intergovernmental Group to have these papers in their possession as soon as possible and in order to avoid delay in the transmittal of these papers, I was asked if the Bank would be willing to send the documents directly to the participants. The Secretariat would then provide us with the list of addresses.

As not all the members of the Intergovernmental Group are Bank members, I told Mr. Chossudovsky that I would check this with headquarters and let him know as soon as possible after my return to Paris.

Would you be so kind as to let me know what is the Bank's position on this point?

Yours sincerely,

Martyn Paijmans

Mr. Federico Consolo
International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C.

Mr. Friedman
This is new – I had arranged with UNCTAD Secretariat (and you had agreed) – see my cable – that the material would be sent direct to UNCTAD Secretariat and not to the participants. I think we should stick to this procedure. Is there anything you want me to write Paijmans or UNCTAD or will you do it directly? Thanks
Consolo
Sept. 26, 1966

MEMBERS OF THE INTERGOVERNMENTAL GROUP

Argentina

Brazil

Ceylon

Federal Republic of Germany

France

Ghana

India

Japan

Poland

Sweden

United Arab Republic

United Kingdom

United States

Yugoslavia

Copy for Mr. Friedman

FORM No. 26
(6.65)

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

INCOMING CABLE

DATE AND TIME OF CABLE: SEPTEMBER 24, 1966 0811

LOG NO.: RC 4 - SEPTEMBER 25

TO: INTBAFRAD

FROM: GENEVE

ROUTING

ACTION COPY: MR. CONSOLO

INFORMATION COPY:

DECODED BY:

TEXT:

FOR CONSOLO.

DELHI SITE SECOND CONFERENCE SEPTEMBER 5 TO OCTOBER 20 OR SEPTEMBER 12 TO OCTOBER 27 DEPENDING ON GENERAL ASSEMBLY CONVENIENCE. FIFTH BOARD SESSION MAY 4 TO 30 PROBABLY GENEVA VICINITY SINCE PALAIS NOT AVAILABLE. IF FACILITIES NOT AVAILABLE GENEVA AREA SESSION MEETS NEW YORK. REGARDS

PERINBAM

AB

FOR INFORMATION REGARDING CABLES, PLEASE CALL THE COMMUNICATIONS UNIT EXT. 2021

ORIGINAL

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman DATE: September 20, 1966

FROM: Paulo Pereira Lira and R. M. Sundrum

SUBJECT: Policy Package for Supplementary Finance Scheme.

The paper on 'Policy Package for Supplementary Finance Scheme' prepared by Mr. Sundrum was discussed at a meeting with Professor Frank, Mr. Sarma, Pereira Lira and Sundrum, yesterday. It was felt that the words 'an important purpose' should be substituted for 'The principal object' on page 1 (line 14) and the words 'domestic and foreign exchange resources' be substituted for 'resources' on page 6 (line 5).

The paper as written is an elaboration of the position taken on page 9 of the Bank staff report, where it says: "Essential elements of the policy understanding for a specified period would normally include (a) a financing plan ..... and (b) a projection of the balance of payments .... The financing plan and balance of payments projection would 'quantify' the underlying policy understanding." Hence, the main theme of the paper is that the policies that the country would undertake should be consistent with the development program, in the sense that they would be efficient in meeting the goals of the individual country, as laid down in the program. This position would therefore meet the suggestion made by Dr. Prebisch that there should be a dividing line between the technical and political requirements.

The Bank staff report also says that "the agreements could be essentially of the same scope and character as are fundamentally necessary for extending broad support in development finance to a country" (p.9) and that "of central importance would be the government's commitment to good performance in the pursuit of sound policies for development." (p.9) This is further elaborated on pp.54-55. An issue that might arise is whether the policy package would involve normative judgments by the Agency of what are the appropriate policies, over and above the criterion that these policies should be sufficient to raise the needed amounts of the country's own domestic and foreign exchange resources.

FORM No. 58 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

5

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: September 13, 1966

FROM: R.M. Sundrum. RMSundrum.

SUBJECT: Supplementary Finance Scheme.

I am enclosing a draft of a statement on the Policy Package concept involved in the Supplementary Finance Scheme.

5

Draft

R.M. Sundrum

September 12, 1966

THE POLICY PACKAGE OF THE SUPPLEMENTARY FINANCIAL SCHEME.

I. Introduction.

The UNCTAD Resolution A.IV.18 of 1964 called for a scheme to provide long-term assistance to developing countries which would help them to avoid the disruption of their development programs due to unexpected shortfalls in their export earnings. The Bank Staff Report on Supplementary Financial Measures proposes a scheme for this purpose. An integral part of this proposal is a mutually agreed projection of 'reasonable expectations' of export earnings over a period of years, so that this could be used to determine whether and to what extent an 'unexpected shortfall' of export earnings occurred during the period. Another basic feature of the scheme is a 'policy package', i.e. an agreement between the Agency administering the scheme, and a member country about the development program to be undertaken by the country and a set of basic development policies which are objectively regarded as appropriate by the international community. The principal object of the policy package is to ensure that, when a shortfall occurs, it is due to factors beyond the control of the country, and of a nature likely to disrupt the development program. If these matters are agreed to between the Agency and the country at the beginning of a planning period, and so long as the country adheres to the terms of such an understanding, it can be presumed that any shortfall from reasonable expectations of export earnings, as specified in the agreed export projection, is one for which the country is eligible to receive assistance from the Agency, without a need for a time-consuming study of the causes and consequences of such shortfall at the time it occurs. It is hoped, in this way, that the assistance provided by the Agency will be both certain and prompt in times of difficulty. This paper is a further elaboration of the nature of such a policy package.

2. The Development Program.

A basic element of the initial understanding between the Agency and a country is the development program which the country intends to undertake. Some developing countries have already reached the stage of being able to formulate comprehensive and systematic medium-term development programs, covering a period of about five years. However, some other countries have not yet reached that stage, but even in this case, there would be partial public investment plans; in these cases, the Agency would adopt a flexible interpretation of the criteria of potential disruption. While it is not necessary that all countries should have systematic and comprehensive plans, there must be some conscious attempt to lay down specific courses of action for the future. It is only on the basis of such targets for future action that any meaning can be given to the idea of potential disruption of a development program.

A country's development program is related to the long-term goals of the people of that country. However, subject to that consideration, a development program must be formulated to achieve those goals as efficiently as possible. In evaluating the efficiency aspects of a country's development program, the approach of the World Bank in its periodic study of the efforts of the developing countries may be found useful. The World Bank missions have been concerned with various aspects of the development program of the less-developed countries. They consider first the extent to which the proposed investments are likely to promote the economic growth of the country. In the case of large development projects, especially those involving Bank financing, these are studied on the basis of their economic, technical, managerial, organizational, commercial and financial aspects. In addition, the entire investment program is also evaluated by considering the incremental capital-output ratio, to see whether there is efficient use of scarce capital, for a high capital-output ratio is an indication of a low return on investment, and also to see whether the investment target is adequate to achieve the growth envisaged. Finally, the sectoral distribution of investment is also considered to see whether investment is directed to the areas of greatest productivity, and to solve the most pressing problems of the economy. In countries where data are available, econometric and input-output models may also be used to appraise the distribution of investments.

A country's development program should be evaluated not only on the basis of its 'paper plans' but also on the operational quality of these plans. This has to be judged, partly on the basis of past experience in implementing such plans and partly on the basis of the administrative machinery available in the country to implement such plans. This is an aspect of the absorptive capacity of the economy, which should be considered to determine the technical feasibility of the development program.

3. <u>The Financing of the Development Program.</u>

The next important element of the policy package relates to the manner in which it is proposed to finance the development program. The initial understanding with the Agency should therefore indicate the mobilization of a country's own resources and of external assistance for the program. An important element of the financing plan relates to the public sector, and should therefore indicate the policies affecting the growth of public revenues and of public current expenditures. Regarding the private sector, the financing plan should indicate the policies affecting the level of consumption in the private sector and the policies affecting the mobilization of private savings through the banking system, savings institutions and the capital market.

In most countries, an important constraint on the development program is the foreign exchange constraint. Therefore, the financing plan should indicate the policies to promote the growth of exports and to reduce the growth of non-development imports in order to obtain a sufficient foreign exchange surplus for financing the foreign exchange requirements of the development program. In addition to this, the financing plan should also indicate the country's policies to promote the net inflow of foreign capital. A matter of special interest is the policy of a country towards external indebtedness, especially with a view to reduce the net burden on the present and future balance of payments, arising from the terms under which foreign debt is incurred.

The various policies which have been mentioned above are relevant for considering the financing plan of a development program, but they also have important political and social consequences for the country. These political and social consequences of policies are matters on which the individual country must make the final judgment. It is therefore not possible to lay down any absolute criteria for evaluating such policies. In examining these policies, therefore, the Agency must be guided solely by the criterion of whether they will be adequate to mobilize the amount of resources which the country contributes to financing the development program by way of self-help.

An essential element in the financing plan of a development program is the scale of foreign assistance likely to be available. As of the present time, donor countries have not been willing to make firm commitments of their assistance to the developing countries over medium-term periods, covering their development programs. Even if firm commitments cannot be made, there must be some indication that the scale on which external assistance is envisaged for the development program is a feasible one. The developing country has to obtain some assurance on this matter in drawing up its development program and the Agency has to make a decision on the feasibility of such assistance, either on the representation of the developing country or by consulting the interested donor countries.

When the elements of the financing plan are brought together, the Agency must satisfy itself that these are adequate financing for the development program.

4. Export Policies.

A matter of special importance, both in connection with the financing plan and the projection of a country's export earnings, is the set of policies which a country intends to pursue in connection with its exports. The exports of a country depend, not only on the conditions of world trade, but also on the country's own policies. In order to make a reasonable projection of export earnings, we must consider the conditions of world trade, the policies of other countries and also the country's own policies affecting its exports. The policies which are relevant relate to the investments to be made in the export sector, the incentives to be given to producers in this sector and the exchange and trade policies which might affect the country's competitive position in world trade. In addition, national and international agencies are engaged in seeking various methods of overcoming the problem of export fluctuations, particularly through international commodity agreements. Wherever feasible, developing countries should cooperate with such attempts in order to stabilize the conditions of commodity trade and hence lead to a better climate for pursuing their development efforts.

5. Monetary and Financial Policies.

Another element of the policy package that has to be a part of the initial understanding is the set of monetary and financial policies of the developing country, as these would affect the development program itself, the mobilization of resources of the program, and the balance of payments. However, quantitative precision in such matters cannot be achieved over a period as long as five years. Therefore, it is envisaged that the initial policy package would include undertakings on the part of the country concerned to follow such recommendations as the International Monetary Fund, which is the international agency concerned with these metters, might make in subsequent years in consultation with that country, with respect to its exchange policies and internal financial policies, provided that these are compatible with the objective of maintaining the development program as originally agreed.

In the past, the International Monetary Fund has been concerned that a country, in balance of payments difficulties, arising from export shortfalls or any other cause, should make speedy adjustments to restore balance of payments equilibrium, and some of the adjustments recommended have had the effect of disrupting the development program. These adjustments have been necessary because the International Monetary Fund was only able to give short-term assistance to countries, in order to maintain the revolving character of its resources, so that these adjustments were required to enable the country to repay such assistance in a relatively short period. However, when the Supplementary Financing Scheme is in operation, countries in balance of payments difficulties arising from unexpected export shortfalls, will receive long-term assistance from the Agency; therefore, the adjustments to be recommended by the International Monetary Fund have to take account of this new circumstance, and would not have to involve the risk of disrupting the agreed development program.

6. Adjustments to Changing Conditions.

When a development program is drawn up, an attempt must be made to estimate the likely future values of many variables, using all such information as is available at the time. However, the actual changes of these variables are unlikely to conform exactly to expectations. Those concerned with formulating development programs must, therefore, recognize this possibility, and incorporate some method of adjusting the country's policies to changing conditions.

When a country suffers an export shortfall, in addition to any assistance it receives from the Agency, the country itself should make an effort to meet a part of this shortfall. One possibility is for the country to reduce its consumptions; to some extent this would follow automatically because of the fall in incomes of the export sector; in addition there may be deliberate attempts to restrict consumption of non-essential items over and above the automatic adjustments which would result from the income changes. Further, in some cases, countries affected by export shortfalls may be able to use a part of their reserves to meet the loss of export earnings. Finally, some countries may also be able to borrow on short-term from other sources for this purpose; although the Agency might have to refinance such indebtedness. In order that the obligations of the Agency and the country are clear-cut from the beginning, there should be an agreement in the initial understanding about these ways of meeting any shortfall.

In the past, when developing countries were faced with large and unexpected shortfalls of their export earnings, they often had to make serious adjustments in their investments, amounting to a disruption of their development programs. The establishment of the Supplementary

Financing Scheme, by guaranteeing a particular export projection, will remove this cause of a disruption of development programs. However, even though the Agency will be ready to provide assistance to meet the effects of the unexpected shortfall, the country should reconsider its development program, particularly to consider whether the shortfall indicates a permanent change in the export prospects of particular commodities and to reconsider its investments in those sectors. While the sectoral composition of the development program might be altered, it would generally be possible to maintain the scale of the program, unless the change indicated by the shortfall is so fundamental that a different program and a new policy package is agreed to between the Agency and the country.

Because of the need for these various adjustments, to meet the effects of a shortfall, policies agreed upon in the initial understanding cannot be assumed to be frozen at the time. On the contrary, they would be adapted to the particular circumstances which will occur in the course of a planning period.

7. Periodical Review.

For the purpose of the Supplementary Financing Scheme, it is not sufficient that a satisfactory development program is agreed to at the beginning of a plan period. It is also necessary that such a development program and associated policies are implemented during the plan period. This requires a periodical review and consultations between the Agency and the member country. The method of such consultations may be based on the present practice of such institutions as the World Bank and the International Monetary Fund. In the course of such periodic reviews, it may be found that a country is not following the policies agreed to initially; in that case, the country will no longer be eligible for assistance from the Agency in the event of unexpected shortfalls occurring in the future, until such time as the country restores these policies, or a new understanding is arrived at.

Isaiah Frank

September 20, 1966
Second Draft

COMMODITY AGREEMENTS AND SUPPLEMENTARY FINANCE

Exporters of primary products face two problems which have become matters of major concern to the international community: the short-run instability of export receipts; and the tendency of export receipts to grow too slowly over the long-run to support the development goals of poor countries. Among the approaches to mitigating each of these problems are commodity arrangements designed to affect the prices of primary exports, and financial mechanisms designed to offset shortfalls in export earnings. Supplementary finance falls into the latter category and is intended to prevent the disruption of development programs arising from any type of unanticipated export shortfall beyond the control of the country concerned.

The distinctive feature of supplementary finance is that it comes into play as a result of the failure of export earnings to come up to expectations as expressed at the beginning of a plan period. To the extent that commodity agreements succeed in stabilizing the export earnings of developing countries, the scope for supplementary finance would be reduced since greater stability would usually imply greater predictability as well, at least within the time-perspective of a development plan. By the same token, to the extent that countries have access to supplementary finance, part of the burden placed on commodity stabilization agreements may be reduced since countries would be protected from the disruptive consequences on their development of unanticipated swings in export earnings. The two approaches therefore complement each other and are in no way mutually inconsistent.

Even if a commodity agreement is intended simply to moderate the year-to-year fluctuations in export earnings, it may have favorable effects on the long-term trend of earnings -- for example, in arresting the shift of demand from the natural to the synthetic product caused by the price instability of the former. This long-term effect is incidental, however, to the short-term stabilization effect. Recently, however, greater stress has been placed on the potentiality for using international price-control mechanisms as explicit devices for improving the export earnings of developing countries over the long-run. Whereas in former years the objective of commodity agreements, in theory if not in practice, was to stabilize prices around a long-term trend determined by market forces, the more recent thinking has been to combine the stabilization function with a conscious effort to affect the price trend itself. One of the purposes of the International Coffee Agreement, for example, is to prevent coffee prices from declining below an agreed level. For any commodity for which demand is price-inelastic, higher prices over the long-run would mean greater foreign exchange earnings for exporters. This approach ~~is~~ seems to be essentially what ~~the French~~ is meant ~~when they refer to~~ by the "organization of markets" as a means of improving the position of developing countries.

Just as pure stabilization agreements may be viewed as complementary to supplementary finance, broader market-organization schemes, such as proposed by ~~the French~~ some, may be viewed as complementary to ordinary long-term development assistance. Both market-organization and financial aid are designed to transfer additional resources to developing countries, the former by requiring importers [and consequently consumers] (principally the rich countries) to pay more for the commodities they buy from poor countries, the latter by capital transfers from the governments of the rich countries to the governments of the poor countries.

The relative merits of these two methods of transferring resources need not concern us in this paper, however. In the face of a growing need in developing countries, the volume of bilateral aid has remained virtually unchanged at about $6 billion per year throughout the five-year period 1961-1965. ~~The difficulties~~ Feasible techniques of bringing about a substantial increase in aid ~~through the conventional national budgetary processes~~ merit consideration are such that serious consideration should be given to other feasible techniques.

In any case, there is good reason to believe that future attempts to establish commodity agreements will be guided by the French notion that such agreements should combine for particular commodities both the price-raising and stabilization objectives. In considering ~~this~~ the "market organization" approach as an alternative to financial mechanisms, two questions arise: 1) is this a feasible approach; 2) to what extent is it likely that such agreements would reduce the need for supplementary finance.

Feasibility of "market organization"

Apart from difficulties of an administrative or negotiating character, can the price-raising device be applied to the bulk of primary products now exported by developing countries? If a ten percent price increase could be obtained on, say, two-thirds of the present volume of primary exports from less-developed to developed countries, the former would receive approximately $1.5 billion of additional resources, an amount equal to one-fourth the present volume of bilateral economic aid.

In actuality, however, the applicability of the "market organization" technique ~~is sharply~~ may be limited by ~~a set of rather rigid~~ exacting conditions. An important consideration is the locus of production. Unless the commodity is produced almost exclusively in developing countries, it is doubtful that this technique can be successfully applied. If advanced countries are major exporters, importers are not likely to agree to international price-raising arrangements. But even where production in advanced countries is for home consumption, the effect of higher world market prices might well be to increase the volume of domestic output in the advanced countries at the expense of exports from developing countries. Price-raising schemes would therefore seem to be applicable primarily with respect to those ~~relatively few~~ commodities such as coffee, bananas, etc. for which producers in the developing countries effectively control supplies in import markets. As a recent U.N. report points out, 3/4 of the primary commodities exported by the developing countries are subject to competition from similar items produced in the industrial countries.[1]

Another limitation is competition from substitutes, including synthetics. Especially for industrial raw materials, higher prices make substitutes more attractive (aluminum for copper, synthetic fibre for cotton, paper for jute, one vegetable oil for another, etc.). Although export earnings may increase for a few years, they may be adversely affected over a more extended period because of the stimulation of substitution. The demand for many primary products appears to be characterized by low short-run price elasticities but by high elasticities in the long-run.

When the various constraints are taken into account, it would seem that price-raising schemes ~~would~~ might well have to be substantially limited to the following commodities: coffee, tea, cocoa, bananas and tin. Based on 1964 data, exports of these commodities from the developing countries amounted to 12.40 percent of their total exports, including petroleum, or 16.96 percent if petroleum is excluded. If coffee and tin are excluded from the figures (since agreements already exist for these commodities) the remaining products account for only 4.25 percent of developing countries' exports, including petroleum, or 5.82 percent excluding petroleum.[2]

don't have tried them make clear could be very important for producers [illegible] commodities

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(1) If petroleum is excluded, the figure is 2/3. 't Hooft-Welvaars, M.J. "The Organization of International Markets for Primary Commodities," U.N. Conference on Trade and Development, Proceedings, Vol. III, United Nations, New York, 1964, p. 483. Among the main products are cotton, copper, fats and oils, sugar, meat, iron ore.

(2) United Nations Conference on Trade and Development, Trade and Development Board, Permanent Sub-committee on Commodities. "International Organization of Commodity Trade- Examination of Criteria for the Selection of a list of Commodities of Interest to the Developing Countries," TD/B/C.1/PSC/8, May 20, 1966, Appendix A.

Apart from the economic constraints, there are severe practical limitations to negotiating agreements even with respect to "eligible" commodities. Producer and consumer interests have to be reconciled, but these coincide only in regard to the reduction of price fluctuations, not in relation to setting the price target itself. Because the Coffee Agreement seeks to keep the price above what it would be in the absence of the Agreement, it encountered serious opposition in the United States and it took several years of hard bargaining and persuasion for Congress to adopt the necessary implementing legislation. Even supporters of regular aid appropriations objected to this method of transferring resources because, in their view, it constituted a regressive form of taxation in donor countries and provided no assurance that the funds would be used effectively for development in the recipient countries. Conflicts of interest also exist as among producing countries -- small vs. large producers, new vs. established producers, producers of one grade or variety vs. producers of another.

litalo for SRS

Among the main points of contention in negotiating agreements are the questions of price, size of total quota, allocation of the quota among producing countries, the method of adjustment to changing circumstances of total quotas and country allocations, policies with respect to the maintenance and financing of stocks, the mechanism of enforcement, etc. Recent unsuccessful attempts to negotiate a cocoa agreement illustrate the difficulty of resolving these as well as other problems. Although there is a good basis for believing that a cocoa agreement will in the end be achieved, the obstacles have been such as to leave few grounds for optimism that agreements can be negotiated for more than a few commodities in the near future.

To what extent are commodity agreements a substitute for supplementary finance?

The answer to this question is partly implicit in what has already been said about the narrowness of the range of commodities in which agreements combining price raising and stabilization objectives are possible. Yet there is little interest today in pure stabilization agreements predicated on an acceptance of whatever underlying price trends are determined by market forces and directed purely to evening out fluctuations about such trends. As Gerda Blau stated in a recent FAO report,(1) "The fact that the conclusion of price stabilizing commodity agreements has proved so difficult in practice appears to indicate that neither exporters nor importers were really prepared to pay a substantial premium for this kind of insurance."

Purely short-term export declines can be met through access to ordinary sources of liquidity, including regular and compensatory drawings from the IMF, provided these facilities are adequate. By definition, such fluctuations in earnings will reverse themselves within a year or two. Developing countries are mainly concerned with the more persistent adverse movements of exports that threaten to

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(1) United Nations Conference on Trade and Development, Proceedings, Vol. III, United Nations, New York, 1964, p. 142.

disrupt their development programs. As explained above, however, these can, as a practical matter, be dealt with through commodity agreements only in a handful of cases. Supplementary finance is directed precisely to such adverse movements that cannot be anticipated and that occur within the time-span of a development plan. Even if more commodity agreements could somehow be negotiated than now seem feasible, there would still be a case for supplementary finance to offset shortfalls of export earnings for those countries that do not benefit from such agreements.

But the need for supplementary finance is not necessarily limited to countries whose exports do not benefit from commodity agreements. Such agreements are intended to stabilize, shore up or raise the <u>price</u> of primary commodities. They cannot insure against the other element of risk, namely adverse movements in <u>volume.</u> If consumption in the main importing countries declines and remains depressed for more than a year or two, it is unlikely that a commodity agreement can succeed in maintaining the earnings of the primary product exporters. Buffer stock operations and export quotas could help maintain prices and moderate the decline in earnings, but if the adverse movement in demand were persistent, some other mechanism would have to be brought into play. Supplementary finance can, therefore, serve as a useful complement in offsetting export shortfalls even for commodities benefiting from international agreements. Insofar as commodity agreements do, however, help to sustain the earnings of exporters, the cost of maintaining a supplementary finance scheme would of course be less.

It has been alleged that a basic difference between the organization of markets through international commodity agreements on the one hand and supplementary finance on the other is that the commodity approach deals with the fundamental causes of adverse trends whereas supplementary finance deals merely with their symptoms. According to this view, commodity agreements can come to grips with the underlying disequilibrium between supply and demand of which price is merely a symptom, whereas supplementary finance can simply provide compensation for the effects of the disequilibrium after the event.

Unfortunately, this view rests on an idealization of the functioning of commodity agreements and on a misconception of the basic elements of supplementary finance. When one examines the history of commodity agreements, one is left with some doubt as to the likelihood of their coping effectively with the underlying forces of demand and supply which determine price over the long-run. Total demand is dependent on the demand schedules of thousands of consumers which cannot be readily influenced. While it is true that demand is affected by measures to increase access to markets, such measures have not been integral parts of commodity agreements and are today being pursued independently of efforts at market organization. As for the supply side, the feasibility of effective control measures has not thus far been borne out by experience. Even the Coffee Agreement, which has had a fair record of price stabilization, has had little success in bringing production and consumption into equilibrium. The Agreement establishes no real production controls and leaves exporting countries entirely on their own in adjusting production to demand. Overproduction has continued and much of the attention of national policy-makers in the coffee-producing countries has been directed to the financing and storage of surplus stocks rather than to the task of controlling production. An attempt is now being made through the Coffee Agreement to address the basic problem of resource reallocation but the results remain to be seen. In short, while it may be possible in the future to build a real stimulus to production control and diversification into commodity agreements, it would be risky to count on it at this stage.

On the other hand, supplementary finance is not simply a device to provide symptomatic treatment for the results of the disequilibrium underlying adverse export movements. The essence of the supplementary finance proposal is that funds would be provided to offset shortfalls in export earnings only from realistic projections and on the condition of prior agreement between the administering agency and the country with respect to development objectives and the policies designed to realize them. Basic to the whole conception of supplementary finance is the inclusion in a development program of measures to shift resources out of export commodities where market prospects are poor to other more remunerative fields. Unless a country lived up to its commitments in this respect, access to supplementary finance would be denied.

Our conclusion is that there is no one method of dealing with the commodity export problems of the developing countries. As stated at the outset, commodity agreements and supplementary finance are not mutually exclusive alternatives; in fact, they can complement each other. But the scope for commodity agreements directed to the problem of adverse trends is limited in terms of the products to which they are applicable, and the countries that would benefit. Even where they are feasible, moreover, commodity agreements cannot insure against adverse movements in export earnings as opposed simply to price. For all these reasons, supplementary finance has an essential role to play in preventing the disruption of development programs as a result of unexpected export shortfalls.

Form No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: September 23, 1966

FROM: Paulo Pereira Lira and R. M. Sundrum

SUBJECT: Supplementary Finance Scheme: Explanation of $300-400 million Figure

We are enclosing herewith a note, which is meant to be the second part of a paper on the Financial Requirements of the Supplementary Finance Scheme. The first part, which is being prepared by Mr. Macone, deals with the explanation of the figures $1.6 billion and $1.2 billion. The present note, which has been discussed with Professor Frank and Messrs. Jalan, Macone and Sarma, explains our derivation of $300-400 million from $1.2 billion as follows:

Financial Requirements for Supplementary Finance
- initial five-year period -
US$ billion per year

		Requirements adjusted for different factors
Gross Shortfalls		1.6
Deductions:		
overages	-0.25	
IMF Compensatory Facility	-0.15	1.2
lag in membership	-0.5	0.7
better projections	-0.1	
better policy adherence	-0.1	0.5
use of reserves	-0.05	
internal adjustment (reduction in consumption)	-0.05	0.4
other source of finance	-0.05	0.35

The note also indicates that the $300-400 million figure has to be revised to take account of (i) refinancing and (ii) a rise in average membership if the adoption of the Scheme is delayed longer than expected.

Draft

September 23, 1966

Financing Requirements of the Supplementary Finance Scheme

\$1.200 to \$300/\$400 million

To arrive at an estimate of the financing requirements of the Agency for an initial period, several other factors have to be considered, besides the "overages" and use of the IMF Compensatory Facility considered above. They are the number of developing countries likely to become effective members of the Scheme in the first five years, the improvement in the preparation and use of export projections as compared to the period of the simulation exercise, the extent to which the developing countries will be expected to meet shortfalls on their own and finally, the possible contribution to meet export shortfalls from sources of finance other than the IMF Compensatory Facility.

It should be made clear from the beginning that, given the nature of the problem, it is not possible to quantify these factors in any exact way. But, on the other hand, if one is estimating the amount of resources that can be regarded as necessary to run the Agency during an initial period, one cannot avoid attributing some orders of magnitude to the different factors which were mentioned above.

An attempt is made below to indicate the orders of magnitude of these factors, according to the best judgment of the Bank Staff, at the time the report was prepared. On this basis, it was estimated that the effect of taking these factors into account would be to reduce the net shortfalls of \$1.2 billion to the annual requirements of \$300 - \$400 million for the initial five years.

Expected Country Membership

The Supplementary Finance Scheme is based on the supposition that a developing country can present its case for aid to the international community in an articulate way. This implies that the country has an operational development plan, which indicates the targets which the country intends to pursue, backed by specific projects and by a set of policies which will allow the achievement of the proposed targets. Besides the fact that the plan has to be feasible - i.e., within the absorptive capacity of the country, it has also to be financially viable. Not only must there be an assurance that the required domestic savings will be available, but there must also be an indication by the providers of foreign assistance that the amount of external assistance being counted upon (basic finance) is a reasonable one in their judgment. Given the need of this basic framework for the operation of the Supplementary Finance Scheme, it did not seem reasonable to expect that all developing countries would be in a position to become effective members of the Scheme as soon as it was established. It was felt that membership would increase over the years of the initial period, as more and more countries get operational plans which had been discussed with the donor countries.

To estimate the effect of this factor on the financial requirements of this Scheme, it was felt that the oil-exporting countries (whose reserve position is generally good), accounting for 22% of the exports of the less developed countries in the period 1962-1964, were unlikely to join the Scheme from the first year of its operation and that only a few of them would do so even at the end of the initial period of five years. On the other hand, a number of developing countries, with 18% of the exports[1/] of the less developed

1/ Merchandise exports only; the developing countries included are India, Pakistan, Colombia, Nigeria, Sudan, Tunisia, Thailand, Malaysia, Ecuador, Turkey and Greece; exports of the less developed world include Africa (excluding South Africa), Asia (excluding Japan) Western Hemisphere (excluding United States and Canada) and Greece, Turkey and Yugoslavia from Europe; export data according to IFS-IMF.

world in the period 1962-1964, already had a mechanism for discussion of their development efforts and aid requirements with the donor countries. These countries were, therefore, in a position to join the Scheme from the very first year of its operation. Of the remaining countries, accounting for 60% of the exports of the less developed world in the period 1962-1964, there was considerable variation in the state of their development planning and in their arrangements for discussing their aid need with donor countries, so that it may be assumed that countries with about half of these exports may be in a position to join the Scheme from the beginning. Assuming, therefore, that the effective membership would increase from a group of countries, accounting for about 45% of the export of the less developed world, in the first year, to countries accounting for about 75% of such exports in the last year of the initial five-year period, the Scheme would have to meet the needs of countries accounting for an average of 60% of exports of the less developed world.

Export Projections

On the basis of the simulation exercise, it was estimated that developing countries in the period 1959-1963 had an annual average gross shortfall of $1.6 billion, which was partly compensated by "overages" of $0.25 billion. The main reason for this amount is the problem of the unexpected fluctuations in the export proceeds of the developing countries, which could not be predicted accurately for individual countries and which is also reflected in the export proceeds of developing countries which had "net" overages.[1/] Two other causes, however, have to be considered when the experience of the past is being used to extrapolate future requirements: the quality of the export projections and the adherence by the country to the policies which underlie a projection.

1/ Supplementary Financial Measures - Annex IV - A Simulation Exercise, Table 5.

Better Projections - Part of the shortfalls estimated in the simulation exercise may have resulted from the fact that the projections which were used could have been improved, if more time and personnel had been devoted to them. This would certainly be the case if the Supplementary Finance Scheme were in operation and, consequently, it may be expected that export projections, receiving a new operational significance as the basis of the Scheme, would approximate actual exports in individual countries more closely and hence reduce the amount of unexpected shortfalls requiring assistance from the Scheme.

Moreover, the export projections which were used for the purposes of the simulation were in many instances of the simple kind, in which only the terminal year was directly estimated, the projections for the intermediary years being assumed to follow a straight line. This may have contributed to over-estimating the deviations from the projections. For purposes of the Scheme, it is contemplated that export projections would be prepared for every individual year of the projection period, using to the full extent the available information.

Policy Adherence - The second factor which has to qualify the use of estimates of shortfalls based on past projection is the extent to which countries deviated in the subsequent years of a projection from the policies which were assumed to underlie the projection in the first place. This factor is particularly difficult to evaluate. The indication of the policies which supported an export projection was not explicit, in many instances. On the other hand, it is to be supposed that the whole mechanism of the Supplementary Finance will put a premium on a closer adherence to the enunciated policies with which the country hopes to achieve the export targets, among others.

Although one can be sure that the two reasons mentioned above would contribute to make shortfalls in the future smaller than they would otherwise be, there is no quantitative basis to estimate their possible effects. To the extent that it was felt that they would be operative, an adjustment was made to correct the experience of the past for purposes of estimating the future by an amount of $0.1 billion for each of the two factors: better projections and better policy adherence. Together, these notional amounts correspond to 25 to 30% of the $0.7 billion of estimated shortfalls after "overages" and the IMF Compensatory Financing Facility, for the countries participating in the Scheme ($1.2 billion adjusted for the 60% membership factor).

Shortfalls Met by the Developing Countries

Under the Supplementary Finance Scheme, a developing country is supposed to meet the problem of an unexpected export shortfall to some extent with its own means, which include the use of its own reserves and internal adjustments involving a reduction in demand for foreign exchange. It is understood that these actions could be undertaken without disrupting the development effort in which the country was engaged. Although the extent to which each individual country could be expected to make this contribution would vary from case to case, an attempt was made to assess the probable order of magnitude of the effort which was considered reasonable when all developing countries are grouped together. And this is the information which is needed for purposes of estimating the financing requirements of the Agency.

Use of Reserves - Quantification of this item started with an idea of the amount of reserves which was reasonable to expect the less developed countries to use for purposes of meeting export shortfalls, considering that there were other shortfalls for which the country had to provide, outside the

Scheme, and the level at which their reserves stood at the end of 1964. For purposes of further exploration, it was thought feasible for the countries participating in the Scheme as a group, to use $250 million of their reserves, over a five-year period to meet unexpected export shortfalls, averaging $50 million a year. The level of reserves of the less developed countries at the end of 1964 was about $10 billion. The position of individual countries varied greatly; the oil-exporting countries and a number of others had been consistently gaining reserves since 1959-1960, whereas other countries were in the opposite situation. Operating with the assumption previously introduced that only 60% of the developing countries - on an average over the first five years - would be participating in the Scheme and considering that probably half of the countries would be subject to shortfalls,[1/] it follows that the assumed use of reserves would represent some 5 to 10 per cent of their reserve levels available in the end of 1964, for the participating countries who might have export shortfalls.

Reduction in Foreign Exchange Expenditures during Shortfalls - Imports of consumer good manufactures and other manufactures excluding capital goods and base metals accounted for some 30% of total imports of less developed areas in 1960, on a f.o.b. basis. This was roughly true not only for the areas taken as a whole, but for different regional groupings, such as Latin America, Southeast Asia, The Middle East. For the other non-industrial countries, including mainly Africa, the proportion was somewhat higher.[2/] Total imports of less developed countries over the 1962-1964 period - with the same coverage that was used when dealing with their exports[3/] - averaged $35 billion, on a c.i.f. basis.

1/ Supplementary Financial Measures - Annex IV - A Simulation Exercise - Tables 1 and 4.

2/ Gatt, International Trade 1961, Tables II, III and IV of Appendix.

3/ See footnote on page 2; data from IMF International Financial Statistics.

Using the same percentage mentioned above, it was estimated that imports of less developed countries as a whole which would receive the major impact of internal adjustment measures subsequent to a shortfall, without disrupting their development efforts, could be estimated at an annual average of about $10 billion, for the period 1959-1963. Adjusting for the 60% factor for average membership coverage in the initial period, out of which only half might be subject to shortfalls, and assuming that the internal adjustment process would amount to 1% to 2% reduction in the imports of the particular type being considered, the contemplated reduction in foreign exchange expenditures could amount to some $0.50 billion a year.

The two items which account for the actions which the developing countries themselves would undertake to meet the shortfalls (use of reserves - $0.050 billion a year and reduction in foreign exchange expenditures during shortfalls - $0.050 billion a year) represent roughly 15% of the shortfalls of the participating countries - after "overages" and IMF Compensatory Financing Facility ($0.700 billion), in the initial period.

Other Sources of Finance

The Bank Statement contemplated the possibility that sources of finance, other than the IMF Compensatory Facility might contribute to the financing of the unexpected shortfalls, such as the "emergency foreign trade loans" advanced by the Export-Import Bank of Washington and program loans as well as the "Food for Peace" Program of the United States AID. The Export-Import Bank of Washington alone made emergency foreign trade loans to developing countries at an average of $0.180 billion a year, during the fiscal years 1958 to 1965. It is possible that the establishment of international machinery to provide for the financing of the unexpected export shortfalls would affect the amount of funds which were previously made available on a bilateral basis. It should be recalled, however, that the new Scheme will provide only for one type of shortfall. For purposes of determining the financing requirements of the Agency, a conservative estimate of $0.050 billion a year available from bilateral sources was adopted.

The following table summarizes the effect of all these considerations on the estimated financial requirements of the Scheme for an initial five-year period:

Financial Requirements for Supplementary Finance
- initial five-year period -
US$ billion per year

		Requirements adjusted for different factors
Gross Shortfalls		1.6
Deductions:		
overages	-0.25	
IMF Compensatory Facility	-0.15	1.2
lag in membership	-0.5	0.7
better projections	-0.1	
better policy adherence	-0.1	0.5
use of reserves	-0.05	
internal adjustment (reduction in consumption)	-0.05	0.4
other sources of finance	-0.05	0.35

On this basis, the Bank Staff estimated that the financial requirements for the Agency administering the Supplementary Finance Scheme, in its initial period of operation, would be of the order of $300 to $400 million per year.

A few additional remarks about this estimate are in order.

It should be considered that in the period for which the simulation exercise was carried out, the export fluctuation of the developing countries had not been much influenced by commodity agreements. As such agreements are put into execution, besides the one which now regulates the coffee market, there should be a net contribution to reduce future shortfalls. To this extent, the financial requirements estimate has an implicit safety factor.

On the other hand, the estimate was presented with the idea that the Scheme - if accepted by the countries - might come into existence within a period of - say - two years. To the extent that it might take longer for the Scheme eventually to become operative, two factors have to be considered. The need to make an adjustment for scale to take into account the growth in the exports of the developing countries will become increasingly important, because the simulation exercise considered the magnitudes only up to 1963. In addition, as time elapses, the number of developing countries which will be in a position to join the Scheme readily because they have operational plans discussed with the donor countries will tend to increase. This may mean that the average membership which would have to be contemplated for an initial five-year period of the Agency might be higher than the 60 per cent which was adopted for the present estimate.

The estimate of $300 to $400 million a year did not consider the effect on the size of the Scheme of the needs which would result from a decision that the Agency would refinance loans received from other sources of finance - including the IMF Compensatory Financing Facility. If a decision is made along this line, the requirements might change, although it is to be expected that the main burden due to refinancing would tend to fall in the periods subsequent to the first five years.

The estimation exercise was based on exports measured as trade exports, without the inclusion of invisibles. There was no basis for doing so in the simulation exercise. The evidence which is being prepared in relation to invisibles has still to be examined to determine to what extent this might affect the original estimate, although the working hypothesis at the time that the estimate was made was that the inclusion of invisibles would not fundamentally alter the results.

Finally, in accordance with the position taken in relation to the import prices question in the Study, the estimate does not take into account the possible effects of unexpected fluctuations in this item.

September 23, 1966

FORM No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman **DATE:** September 13, 1966

FROM: P. Pereira Lira and Bimal Jalan

SUBJECT: Progress Report on papers for the Intergovernmental Group of Experts on Supplementary Finance (cleared with Professor Frank, Messrs. Hulley, Macone, Sarma and Sundrum).

Please find below the current situation of the papers which are being prepared in connection with the next meeting of the Intergovernmental Group of Experts on Supplementary Finance on October 10th.

Paper	Status
1. Form and Terms of Assistance.	Paper agreed upon by the Group and in your hands for approval (draft of June 29, 1966 with partial redrafting of August 30, 1966.)
2. The Role of the Agency as a Residual Lender.	Paper agreed upon by the Group and in your hands for approval (draft of June 28, 1966 - with a change in paragraph 8 - delete the sentence: "This would, of course, call for coordination with other bilateral agencies but this would not be difficult if the provision of such assistance under the Scheme is made contingent on agreed plans and policies".)
3. Shortfalls and "Overages" in the Supplementary Finance Scheme.	Paper agreed upon by the Group and in your hands for approval. (draft of August 25, 1966; delete paragraph 23.)
4. Commodity Agreements and Supplementary Finance.	Paper being discussed by the Group today.
5. The Policy Package and Supplementary Finance Scheme.	Paper to be discussed by the Group tomorrow.
6. Financing Requirement of the Agency ($300 to $400 million figure).	Paper available for discussion by the Group, in the light of your remarks on the explanation of the $300 to $400 million figure in the meeting of September 6, 1966.
7. Export Projections.	Paper expected to be available mid-October.
8. Background paper on Invisibles.	Paper being drafted

Paper	Status
9. Background paper on import prices.	Statistical material being processed; initial results expected to be available end of week.
10. Relationship of the IMF with Supplementary Finance.	The Group feels that a paper on this subject should be given to the Intergovernmental Group of Experts only if the Fund would present to it a paper on Supplementary Finance. If this would be the case and the Fund paper followed the line of the one which was submitted to the IMF Board (SM/66/95), the Bank could circulate a paper incorporating the substance of the memo of September 12, 1966.

cc: Professor Frank
Messrs. Hulley
Jalan
Macone
Sundrum
Sarma

Supplementary Finance

DRAFT
August 30, 1966

1

What is the question?

"Form and Terms of Assistance"

Redrafting of
Form of Assistance

As in the case of the provision of any type of long-term aid, Supplementary Finance could be provided to a country by the Agency in three forms: a) related to projects: b) related to a list of goods and services for which the funds could be used, and c) as an outright transfer of cash to the country. The decisive criterion which should determine the choice of one of these three forms as the appropriate one for Supplementary Finance is that of "timeliness"; that is, such assistance should be forthcoming shortly after an unexpected shortfall has been identified so that it avoids the disruption of the agreed development program which would otherwise occur.

also in such form as not to interfere with already expand "shelf" possibility

Consideration of the "timeliness" criterion lead to the discarding of the alternative of linking Supplementary Finance to projects only. Administration of aid through them is usually a time consuming process, which may ~~does~~ not meet the need to have assistance conveyed in a matter of a few months. In additon, even the availability of a series of projects ready on the "shelf" to be financed in case of a shortfall does not solve practically the problem that the payments for which a substitute has to be provided - in lieu of the export proceeds which did not materialise - relate to import of capital goods outside currently contemplated projects, ~~such as~~ imports of raw materials, semi-manufactured components and spare parts and, finally, scheduled debt service payments of remittances of profits and dividends.

for what?

The disbursement of assistance related to a list of goods and services may be based on the experience of providing non-project financing by ~~the World Bank and~~ bilateral donors. The outright transfer of cash would correspond more to the way assistance is normally given by the IMF. The choice between providing Supplementary Finance involves many considerations ~~in these two ways cannot be decided on economic grounds~~. Whatever alternative is chosen, a ~~the~~ fundamental need is for

expand -

x mention considerations

distinction between tying and non-tying - non-tying clearly ...

the Agency to be satisfied that the resources thus transferred are used effectively and for development purposes in any case is met by the fact that satisfactory performance of the members under the Scheme is a prerequisite to the assistance and that access to it depends on the implementation of a development program and related policies previously agreed with the Agency.

In relation to the two alternatives previously mentioned, if it would be found necessary to tie the assistance to certain types of expenditures, the procedures adopted would have to take into consideration the particular situation of each country concerned, so as to ensure that the requisite of "timeliness" would be fulfilled. This consideration seems to indicate that a rule governing the form of assistance which would ensure the most efficient operation of the Agency - in terms of achieving its objectives - would be to leave to the discretion of the Agency to work out with the member country how the finance would be supplied so as to ensure that the development program would go forward.

alternative is repay Agency after [illegible]

what about term? (should state alternatives - mention function of averages -)

I dont want cash — want functional tie to development process —

no short-term money - only Fund [illegible]
be short-term problem because short-fall followed by overage in same period - if overage not [illegible] period [illegible] accumulation to reduce need for [illegible] development finance

Answer. Rule is same term but leave open possibility of more or less lenient than existing terms —
Also more on initiative to repay —

Draft
August 30, 1966

"Form and Terms of Assistance"

Redrafting of paragraph 9.

why not less lenient? (see Intl Chamber of Commerce)

Granting the need for flexibility in the terms of supplementary and development finance, there is an interesting question which is sometimes raised: shouldn't the terms of supplementary finance be more lenient than those of basic finance (even in the ideal case) because of the fact that (a) following a contraction in exports, the savings and debt servicing capacity of the country would have diminished and (b) the bridging of the exchange gap through the Scheme can only insure a continuation of development according to the plan but does not generate extra foreign currency earnings in the future. The idea behind the former argument is that the terms of basic finance would be determined at the beginning of the plan period or in yearly aid negotiations, on the basis of the expected outlook of the country's debt servicing and saving capacities. If an export shortfall subsequently occurs, the question is whether there are reasons to suppose that the longer run outlook has changed or not. If it has not, the terms for Supplementary Finance should be the same as those currently prevailing for basic finance. It should be recognised that, for practical purposes, these terms are associated with a range of values of the relevant factors which effect their choice. An increase in the amount of long-term indebtedness because of the Supplementary Finance received - with all other factors remaining constant - would not by itself require different terms for aid. However, if the occurrence of the shortfalls lead to a reassessment of the country's debt servicing capacity and saving potentiality, the more lenient terms which would be required for Supplementary Finance would be only a reflection of the new terms which would now be deemed necessary for basic finance. This would be associated with a revision of the development program to take into account a fundamental change in the country's economic outlook.

Also why not a grant — also why not short terms?

DRAFT
August 25,
1966

SHORTFALLS AND "OVERAGES" IN THE SUPPLEMENTARY FINANCE SCHEME

1. An essential feature of the Supplementary Finance Scheme is the understanding between the Agency and the country on an export projection for a period of time which is the same as that of the country's development plan.

2. The export projection indicates the yearly amounts of foreign exchange which the country is expected to earn out of the use of its own production. Together with the expected gross inflow of foreign capital - on short, medium and long-term basis - as well as possible use of reserves (if advisable), they would provide the means to meet the payment of foreign goods and services which are needed to carry the development program and the projected level of consumption expenditures, and the servicing of its liabilities. Agreement on the above between the country and the Agency would reflect the financial viability of the development plan, both from the point of view of internal and external resources, or in other words, from the point of view of availability of domestic savings and of foreign exchange.

3. The specific objective of the Scheme is to help avoid the disruption of well conceived development programs, which have commanded international support for their financing, when this disruption could potentially be caused by a lack of foreign exchange due to an unexpected export shortfall - actual exports proceeds placing themselves below the projected amounts. The Scheme satisfies a developmental need. It is analogous to an insurance fund for protecting development programs from one particular important unforeseen and unavoidable circumstance - the lack of expected foreign exchange proceeds.

4. The Scheme would assist a country by providing ~~loans~~ credits in the event of shortfalls. At the same time, the Scheme assumes that when "overages" would occur - actual exports being larger than projected - the country would use them to repay for loans which had been received during the projection period or to meet subsequent shortfalls, also during the same projection period. This way of running the Scheme would ~~ensure its utmost liquidity~~ reduce the needed size of the Scheme compatible with achieving its stated objective.

5. The following pages present a method of calculation of the financial relationships between the country and the Agency, which takes account of other factors which have to be considered, such as the adjustment for consumption in shortfalls and overages, the use of the country's own reserves and borrowing from other sources of finance.

Adjustments in Shortfalls and "Overages"

what is "its" exporters or entire economy?

6. When an export shortfall takes place the income of the export sector is correspondingly lower. This may affect its consumption and investment expenditures. Depending on the kind of compensatory policies which the country adopts, there may be room to absorb part of the lack of expected foreign exchange through a reduction in consumption expenditures, without disrupting the development program. This reduction in consumption may include deliberate attempts to restrict consumption of "non essential" items over and above the automatic adjustment which would result from the income adjustments.

7. In the same way that shortfalls will cause a decrease in consumption expenditures through the process of income reduction, overages will operate in the reverse direction. There will be a tendency to increase the demand for foreign exchange to meet the consumption expenditures which will absorb part of the unexpected receipts. To the extent that overages and shortfalls would be registered during the projection period, the allowance for the expansion of consumption in the event of overages would compensate the corresponding reduction in the case of shortfalls. This seems adequate because

when the development program of the country was found feasible at the beginning of the projection period, one important consideration which led to this conclusion was that the savings effort which the country itself was supposed to produce (in other words, the expected behavior of consumption with its repercussions on the demand for foreign exchange) was considered reasonable.

8. Given the magnitudes of the development plan, the available knowledge as to the workings of the economy and the policy intentions of the government, for each possible level of shortfall which could be observed in any year it would be possible to determine the corresponding amount of reduction in foreign exchange consumption expenditures. For practical purposes, it seems that the adjustment for the consumption factor in overages and shortfalls could be taken care of by agreeing on a single coefficient which would be applicable to both cases.

9. Besides taking care of the shortfall through the reduction in consumption expenditures, there are other ways of meeting the shortfall: use of the countries own reserves and borrowing abroad - either from the Supplementary Finance Agency or from other sources such as the IMF Compensatory Facility, IMF tranches and bilateral sources. Whether the use of the country's reserve or borrowing from "other sources of finance" - besides the Scheme - will be contemplated in the understanding between the country and the Agency depends on the particular situation of the country.

10. The expected use of reserves by the country within the context of the Scheme has to take into account what has been assumed about them when estimating the basic foreign finance requirement to support the development program, so as to avoid double counting of their use. Situations may exist in which, due to previous favourable circumstances, the country may be in a situation to plan the use of its reserves to finance the development program and correspondingly reduce the need for the inflow of capital.

This is a once and for all use of reserves and diminishes the amount available to meet all kinds of unforeseen events (including the unexpected export shortfalls) and the known leads and lags in the receipts and payments of foreign exchange. An item would be included in the understanding between the country and the Agency which would correspond to that part of the reserves which the country could be expected to use to meet unexpected export shortfalls, when consideration is given to the fact that there are other unforeseen events which have to be taken care of, and that the time distribution of foreign exchange transactions of the country results in certain need of foreign balances. To the extent that it is possible to agree on a certain amount of reserves to meet unexpected export shortfalls, the eventual demand for funds from the Scheme by the country will be correspondingly diminished. On the other hand, the level of reserves for a number of developing countries is such that this item of the understanding could be expected for, practical purposes, to be zero with a number of countries.

11. The same type of consideration expressed before would also influence the determination of the item concerning the increase of indebtedness of other sources of finance which would be temporarily expected to meet an export shortfall. In the international financial machinery there exists one type of arrangement which is specifically designed to meet export shortfalls, the IMF Compensatory Financing Facility. The extent to which recourse to other sources would be contemplated between the country and the Agency - for example the other IMF tranches and bilateral sources - would also have to take into account, besides the outstanding level of this type of debt at the beginning of the projection period, the fact that the country is faced with other unexpected events beyond those that occur in the area of exports. It is assumed that the Scheme would refinance the borrowings obtained by the country from the other sources of finance to finance the unexpected export shortfall.

Financial Relations between the Agency and the Country

12. Based on the above considerations, the amount of loans which a country can expect in the event of a shortfall and the amount of repayments can be expressed in relation to the formulae presented below. They indicate the outstanding indebtedness which a country is entitled to have with the Agency at the end of any intermediate year and at the final year of a projection period. The loans which the country receives during the projection period are regarded as "contingent" loans being subject to repayment in case of subsequent overages during the same period. The outstanding amount of loans received at the end of the projection period would then be converted into a final long-term loan.

13. If one would call:

accumulated shortfalls during the projection period (*)	S
accumulated overages during the projection period (*)	O
coefficient of adjustment of consumption	a
expected use of reserves	R
outstanding indebtedness from other sources of finance (at the end of the year)	F,

the outstanding indebtedness which the country would be entitled to have with the Agency at the end of any intermediate year during the projection period (L_i) would be given by the result of the following calculation (when positive):

$$L_i = (S - a.S) - (O - a.O) - R - F.$$

The outstanding indebtedness at the end of the last year of the projection period (L_f) would be equal to:

$$L_f = (S - a.S) - (O - a.O) - R$$

(*) See Annex 1, on the effect of unexpected changes in the volume of exports on the measurement of shortfalls and overages.

14. When the outstanding indebtedness would increase from the end of one year to the other, the country would receive a contingent loan (**) equal to the difference. On the other hand, if it would decrease, the country, would have to pay the difference to the Agency. This repayment would obviously have to take place only to the extent that there still existed an outstanding amount of contingent loans.

15. The amount of outstanding indebtedness at the end of the last year of the projection period (which would be equal to the sum of the contingent loans eventually received the less the corresponding repayments made during the projection period) would then be transformed in a long-term loan, with terms and interest rate as discussed in another note. (***)

16. The eventual operation between the country and the Scheme ("contingent" loan or repayment of a "contingent" loan) would take place on a yearly basis. Given the usual delay for the availability of data on actual exports to be compared with the projection, there would normally be a lag of a few months for the registrations to be made and for the eventual loan from the Supplementary Scheme to be made available. It is to be hoped that the existence of the Scheme in operation might contribute to improve the speed with which these data would be prepared. Moreover, it would be possible to operate on the basis of preliminary data, if they could be considered reliable enough.

(**) Up to the value of the indebtedness in the second period, this being positive.

(***) It might be simpler from an administrative point of view if the contingent loans which are received during the projection period would not be subject to any other repayments during the projection period besides those which might occur as a result of the behavior of overages.

The yearly operation would then be made for an initial value, subject to alteration when the final data would become available.

17. The meaning of the suggested rule for calculation of the indebtedness which the country is entitled to have with the Agency in relation to the operations of a projection period can best be understood by referring to alternative situations.

For example, if during the projection period, the country would have only shortfalls, the Scheme would have allowed the country to continue its development program without disruption. The loss of foreign exchange due to unexpected shortfalls in export proceeds would have been substituted by a long-term loan. On the other hand the country would have contributed its share to meet the unexpected situation by reducing to some extent its foreign exchange expenditure for consumption purposes, and by using part of its reserves. This would mean that for the next projection period - unless the country's reserves would have been replenished by an inflow of capital - the "reserve" item in the new understanding would have to be zero.

18. In another situation, if during the projection period the amount of shortfalls would have been equal to the amount of "overages", the country would have been able not only to carry out its development efforts, but also to maintain the expected level of consumption expenditures. Although it would have used the facilities of Supplementary Finance on a contingent basis, it would end the projection period without making a net drain on the resources of the Scheme, because it would have repaid the loans which would have been received during the projection period.

19. It should be remarked also that the country would be supposed to use its overages to repay the contingent loans received from the Scheme during a projection period, even if this would mean that the level of the country's reserves would have to go below that level to which it would go down,if the country would have used them only to meet unexpected export shortfalls.

This would be the case if the country had been obliged to use them to meet other unexpected events, which the Supplementary Finance Scheme is not designed to meet.

20. It should be pointed out that the item for the indebtedness to be obtained from the other sources of finance considered in the calculation of the "contingent" loan for a year is the amount corresponding to the outstanding debt to these other sources at the end of same year. This would mean that if the country had to liquidate part (or the totality) of the loans received from the other sources of finance without having had a corresponding overage in the period, the Agency would provide a contingent loan of an amount equal to the repayment to the other sources. This follows from the objectives of the Scheme: a) that the country should not use more of its reserves to finance an export shortfall than had been agreed upon, b) that the reduction in consumption expenditures should be kept within the established limits and c) that the development plan should not be disrupted because of the export shortfall.

21. The calculation of the indebtedness which the country is entitled to have with the Agency at the end of the projection period - and which is equal to the long-term loan which the country would finally receive from the Agency in relation to the operations of the projection period which has just finished - does not take into account the item "F" - the outstanding indebtedness to the "other sources of finance" at the end of the projection period (see paragraph 13). This means that the country could ask the Agency to refinance through the long-term final loan whatever indebtedness to the "other sources of finance" would be outstanding at the end of the projection period, up to the limit which had been initially agreed that the country would obtain from them for the purposes of financing the unexpected export shortfalls. This is in accordance with the idea that although the country would be expected to use "other sources of finance" -

which would result in a temporary diminution on the demand for the funds of the Agency - this should not lead the country to finish the projection period with an increase in indebtedness to finance unexpected export shortfall with terms and conditions which would be worse than those of the Agency long-term loans. From the point of view of funds available to the Agency, it would be convenient if the refinancing operating would be carried in such a way that the Agency would assume the obligations which the country previously had vis-a-vis the "other sources of finance", instead of having the debt of the country immediately paid out.

22. It is worth noting that all calculations referred above are related to a projection period. The value of accumulated shortfalls and overages at the beginning of the next project period would be zero. This would mean that if the country had finished the previous projection period with net overages, they would not be transferred to the next projection period for purposes of the operation of the Scheme. Members who succeed in acquiring more foreign exchange than had been reasonably expected during the course of a projection period would be allowed to consolidate their advantage. However, they would begin the next phase of their development with a stronger financial position. This would be taken into account in assessing their need for long-term capital or for the possible extent to which the country would be expected to use its own reserves, before coming to the Scheme for the financing of the eventual shortfalls in the next projection period. By not carrying the "excess of net overages" from one period to the next, the Scheme would provide a measure of incentive for developing countries to try harder to surpass their export targets.

Limit on the Maximum Amount of Contingent Loans

23. The outstanding amount of contingent loans which a country would be allowed to receive from the Agency, given a certain accepted projection of the country's export proceeds, would have to be subject to a certain maximum amount, which should be related to the total value of the export proceeds for the projection period. If the outstanding amount of contingent loans at the end of a year would exceed the adopted maxiumum, a revision of the country's export projection - with the simultaneous revision of its development plan and overall balance of payments projection - may be necessary. It is not conceivable that the Agency would possibly underwrite to finance without limitation the shortfalls of each and every country that was a drawing member, because the Agency would always be subject to some limitation as to possible available funds.

24. Obviously, the rule as to the maximum permissible amount of contingent loans which a country would be allowed to owe in relation to the initially projected export proceeds would depend, among other things, on the amount of funds which the Agency would have available for its operation. On the other hand, it seems reasonable that this maximum would have to be of a meaningful size, in order that the attraction of underwriting of export proceeds could achieve its objective. For example, for purposes of further exploration, one could start with the suggestion that this maximum should be one-fifth of the projected export proceeds, over a five-year period (assuming this would be the usual length of the projection periods of the different countries).

The Need for a Foreign Reserves Policy

It should be stated that nothing in the Scheme would relieve the country from the need of having a very definite foreign reserve policy which is compatible with its short-run objective of stability and long-run objective of development. Much to the contrary, the availability of the Scheme would introduce new elements which have to be taken into account and which would point to the need of identifying the foreign reserves policy which the country would find most suitable to meet its goals.

26. It has already been said that the Scheme takes into account only one type of uncertainty which accompanies the process of development. Manipulation of reserves will have to take into considertaion not only this uncertainty but also all the others. In addition, the suggested operational rules for the Scheme raise the possibility of situations for which reserves would be needed to absorb the impact of differences between actual and expected values. For example, one of the elements which is subtracted from the total shortfall to determine the contingent loan is the expected reduction in foreign exchange demand associated the fall in consumption expenditures due to the shortfall. For purposes of operating the Scheme the amount deducted is that which corresponds to the best estimate which can be agreed upon between the country and the Agency. What will actually happen is certainly likely to be different from what was estimated. Given the fact that there are so many different factors operating at the same time and that these factors operate with different leads and lags in time, the practical solution to the problem is to operate the Scheme under the rule that what is to be subtracted is the amount initially estimated. The experience in running the Scheme will probably teach lessons which will influence the estimates which will be subsequently made.

27. Another assumption which was made for the purpose of making the Scheme operational was that when the amount of shortfalls during a projection period are matched by an equal amount of overages, the indirect effect on consumption expenditures (and their effect on the demand for foreign exchange) would basically be the same. This will not necessarily be so. The hypothesis adopted seemed a reasonable way out from the point of view of practicability of the Scheme. This, however, points to the need of the country having a

policy for foreign reserves which allows it to absorb the difference between what is being assumed for practical operational purposes and what will really happen.

28. The need for a very definite foreign reserves policy becomes apparent in the particular situation in which "overages" would precede shortfall, during a projection period. It has been suggested by some that the country should not keep its unexpected additional foreign reserves in liquid form but should step up the pace of its development program. The stepping up of the pace of the development program is meant here as the initiation of new development projects, above and beyond those which were initially contemplated. It is not meant as measures which would simply anticipate the expenditure of foreign exchange from subsequent periods, in the same projection period. In other words, the stepping up of the pace of the development program would involve an increase in the initially projected and already agreed expenditure of foreign exchange during the projection period. This argument should be considered in the context in which Supplementary Finance Scheme is supposed to work. The Scheme assumes that there is a reasonable development progr am for which the needed foreign financing is expected to be forthcoming, as a result of the understanding with the capital exporting countries and international financial agencies. Maybe this development program is not as fast as the country could achieve, given its absorptive capacity, defined in terms of the country's actually being able to carry out and run developmental projects. But this is a realistic program for ehich it was found possible to obtain the necessary external sources for carrying it out and for which the Agency has undertaken the responsibility, subject to a meaningful limitation, of coming forth with the needed foreign exchange in case of a shortfall, so that the projected development would not be disturbed. In other words. this

is a development program for which there is certainty that it will not be impaired because of lack of export proceeds.

29. If the country would use the unexpected foreign exchange available because of the "overages" in its export proceeds to accelerate the pace of its development (assuming it had the absorptive capacity to do so), it would be doing so at the risk of being put in the position of having to disrupt the program subsequently, in case shortfalls would occur in the future years of the projection period. Because, having spent the unexpected foreign exchange and not being entitled to receive a contingent loan from the Agency there would be a lack of foreign exchange to carry the "expanded program" which would then be disrupted.

30. The fact that the country refrains from spending the unexpected foreign exchange (and accumulates it in some liquid form) is a price which it pays to avoid the risk of eventually having to disrupt to program later on. It is the apparent short-run cost of having an orderly development. Countries, like individuals, may have different preferences as to the bearing of risks. The Supplementary Finance Scheme assumes that the prospective pace of development which the capital-exporting countries and international financial institutions are willing to support is attractive enough to the country for it to want to protect the program from disruption.

31. There is, indeed, a very important practical problem of how the authorities can resist the mounting pressures to spend the accumulating foreign resources in the reserves of the country, when the advocates of a larger program point the innumerable problems which remain to be solved in the country. The logical argument of insuring an "orderly development" tends to weaken as the reserves pile up. One expedient which may help to alleviate this type of pressure is to allow countries - if they so desire - to make term deposits with the Agency, which would not be included in the definition of the country's reserves. The Agency could use such deposits to make investments in the international capital markets.

32. If, however, there is a tendency for an accumulation of unexpected earnings above certain limits, (say "net overages" being equal to one or two average years of projected export proceeds) the country could initiate measures to revise its development program, taking the proper initiative with the suppliers of foreign financing.

ANNEX I

Import content of "overages" and shortfalls

1. Let us suppose that the exports of a country were 100, out of which 20 percent (20) were imported from abroad, leaving a value added by exports of 80. If the volume of exports of the country unexpectedly increased by 30 percent, with no change in prices, the additional needed imports would be 6 and the unexpected foreign exchange proceeds available to the country would be 24. On the other hand, if the same unforeseen change had taken place in the opposite direction (30 per cent decline in the volume of exports, with no change in price) the export proceeds would decline by 30. But as there would be a corresponding decline in the required imports, the actual unexpected shortfall in terms of foreign exchange available to the country (in terms of value added of exports) would be 24.

2. If the contingent loan made by the Supplementary Finance Scheme would be measured in terms of the gross export proceeds, when the shortfall took place the country would be entitled to a loan of 30, whereas its shortage of foreign exchange would be only 24. The country would be receiving an "excess" loan of 6, beyond its need of foreign exchange to carry out its development program. When overages of the same extent would subsequently take place, although the unexpectedly available foreign exchange would be only 24, the country would be obliged to repay the full 30. If during a certain projection period, the "overages" and shortfalls are measured in gross terms, (instead of a valued added basis) there would be a compensation within the period between the "excess" loan received at one stage and its repayment. The country operating with the Agency would have to be aware of this so as to take it into account in the administration of its foreign exchange reserves.

3. If, in relation to the projection period, the "overages" more than compensated for the shortfalls, the "excess loans" would all have been repaid. There would be no question of the country having to repay more than it should, because of the ways the rules regulating the disposition of "overages" operate.

4. However, if, in relation to the projections period, the shortfalls were larger than the observed "overages", the country could have outstanding a certain amount of "excess loans".

5. The rule of computation of "overages" and shortfalls on the basis of gross foreign exchange proceeds instead of "value added" foreign exchange proceeds does not penalize the borrowing country. In any case, it is not obliged to take the full amount of the contingent loan to which it is entitled, so that the country can avoid having "excess loans" if it so desires.

6. The rule poses a problem from the point of view of the application of funds by the Agency. Being subject to a limitation on the availability of funds, it could be put in the position of having to make more loans to a country than would be strictly necessary from the point of view of fulfilling its stated objectives.

7. From the point of view of operationality, however, it was considered that, as a general rule, the magnitude of the problem was not important and that the adoption of the rule, on a "value added basis" would add to the complications of implementing them on a practical basis. It should be left open to the Agency, however, the power to request that, in relation to particular countries in which the problem might prove to be significant, the rule for computation of shortfalls and "overages" be made on a "value added" basis.

FORM NO. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files

DATE: July 1, 1966

FROM: Bimal Jalan

SUBJECT: Mr. Friedman's talk with Mr. Dell

As desired by Mr. Dell, Mr. Friedman gave his comments on the attached questionnaire over the phone.

In his general comments, Mr. Friedman emphasized that he felt that the questionnaire should give the impression that we're in fact making progress on the Scheme for Supplementary Finance. He also suggested that Mr. Dell might want to communicate to the member countries,if he thought it desirable, that the Bank was ~~considering~~ continuing work on the Scheme with a view to further explaining and clarifying the issues involved, and that the Bank was fully ready to participate in the work of the inter-governmental group.

Specifically, Mr. Friedman suggested that questions 1(a), 1(b) and 4(a) be dropped because these questions were already settled. Mr. Dell agreed. Mr. Dell also agreed to drop the words "commercial terms" from Q.3(d) and to add "Short-term balance of payments accommodation instead of "balance of payments" from the last line of Q. (g).

Mr. Friedman suggested that the meaning of the Q.5(c) was not clear. Mr. Dell thought so too and wanted to reconsider the question. He would also consider whether Q.5(d) really needed to be included. Mr. Dell agreed that question 7(c) be dropped because it was already covered by question 7(d).

Mr. Dell said that he would pass on Mr. Friedman's comments and his reaction to those to Mr. Prebriseh. He added that a number of questions in the questionnaire were ~~already settled~~ pretty simple to answer, but they were included since they were raised by delegations at Geneva; and needed brief clarifications.

cc: Mr. Friedman
Mr. Pereira Lira

FORM NO. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Irving Friedman DATE: July 1, 1966

FROM: Bimal Jalan and P. Pereira-Lira

SUBJECT: Mr. Dell's Letter of June 28, 1966

The questionnaire probably serves a useful function in bringing together in one document the various issues raised at Geneva, which the intergovernmental group is under instructions to consider. But we feel that there is hardly any point in raising once again the questions of principle, for example, q.1 (a), "Is the primary objective of supplementary finance to avoid disruption of development programmes." We would have thought that we (and UNCTAD) have already crossed that bridge. We wonder, if in your chat with Mr. Dell, you would wnat to suggest that questions of these nature, as well as some others which cannot be fruitfully discussed "a priori", be dropped, specifically the following:

Questions 1(a), 1(b), 2(i), 2(j), 4(a), 5(c), 5(d).

We have marked these questions in the copy of the questionnaire sent to you by Mr. Dell.

[illegible]

Mr. Friedman June 29, 1966

Bimal Jalan

Mr. Erb of UNCTAD called me last week to tell me that the Inter-Governmental Group on Supplementary Financing was meeting on September 12. In this connection he mentioned that Mr. Dell would be sending you a list of questions which the group might discuss. He did not ask for my reaction to this idea of having a list of questions for the group, and I did not discuss whether this was a good idea.

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REFERENCE: TDS 213 (1)
Inter-Governmental Group
on Supplementary Financing.

28 June, 1966.

Dear Irving,

The latest information I have is that the meeting of the Inter-Governmental Group on Supplementary Financing is likely to take place for a two week period in Geneva beginning on September 12. There has been some talk in the last few days of trying to advance the meeting, but we are discouraging this because of the procedural difficulties involved.

I think it would be helpful if, in addition to anything that you might be thinking of presenting to the September meeting, we listed the various questions that were raised by delegations during the resumed session in connexion with each of the main headings of the terms of reference. I gather that this idea was discussed on the telephone last week by Mr. Erb and Mr. Jalan.

... I now enclose a draft of such a list of questions, and should appreciate your comments. I myself am leaving for Europe early next week, and should be glad to talk to you on the telephone about this later this week, if you are able to deal with the matter by then. If not, may I ask you to contact Mr. Toren, Chief of the Financing for Trade Section here who will be responsible in this area during my absence.

With best personal regards,

Yours sincerely,

Sidney

S.Dell, Director
New York Office of UNCTAD

Mr. Irving Friedman
Economic Adviser to the President
International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington D.C. 20433

TRADE AND DEVELOPMENT BOARD
Committee on Invisibles and Financing
related to Trade
Intergovernmental Group on Supplementary
Financial Measures.

CONSIDERATION OF THE SCHEME FOR SUPPLEMENTARY FINANCIAL MEASURES CONTAINED IN THE REPORT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT.

Note by the Secretary-General of UNCTAD

In connexion with the intergovernmental group's study of the proposed Supplementary Financial Measures (TD/B/43), the following questions have been prepared on the basis of reference made to the Report of the Committee on Invisibles and Financing related to Trade on its Resumed First Session (TD/B/73) and its annexes as well as to the Bank Study (TD/B/43). The questions have been organized under the headings contained in the group's terms of reference.

1. Questions affecting the scope of the scheme, including the treatment of overages and the regard to be paid to import prices.

(a) Is the primary objective of supplementary finance to avoid disruption of development programmes?

(b) Must shortfalls to be dealt with by the scheme be of a nature or duration which could not adequately be dealt with by available short-term balance of payment support?

(c) Should a prima facie case for assistance under the scheme be established on the basis of an adverse movement in export proceeds in real as well as in money terms?

(d) What arrangement would be appropriate in respect of a country which experiences an excess of exports (overage) over projected estimates?

(e) Should such overages be earmarked for offsetting shortfalls?

(f) Are there circumstances in which overages might be used for other purposes?

2. The form, terms and conditions for the provision of financial assistance to countries participating in the scheme.

(a) How could it be ensured that supplementary finance would be timely and certain?

(b) Should the terms of supplementary finance be similar to those being applied to basic development finance by the various international lending agencies?

(c) Should the Agency tailor the terms and conditions of supplementary finance to the overall financial and economic position of the country concerned?

(d) In what way would the debt service position of developing countries be taken into account in the determination of the terms and conditions of supplementary finance?

(e) What would be the most desirable length of maturity for loans provided by the Agency, keeping in mind the need for reconstitution of its resources?

(f) Should the Agency have the right in certain circumstances to request payment from participating countries earlier than originally stipulated?

(g) Should all feasible domestic adjustments be made which would not disrupt development programmes?

(h) Should such adjustments include "not encouraging continued investment and output in export sectors when world demand is falling, re-examining and adjusting some public expenditures to ensure the postponement of the relatively less urgent or less important, or altering the tax structure to the changed conditions"? 1/

1/Bank Study, p.51.

(i) If a reduction in planned investment in the export sector is indicated by structural change in world demand or supply, should correspondingly larger investments be made in diversifying the rest of the economy?

(j) Would the scheme assist in this diversification?

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 modifications which the Group may suggest) would be available.

(a) It is agreed that \$300 to \$400 million per year would be the amount required to operate the scheme.

(b) To what extent should ordinary resources of the IMF, i.e. gold and credit tranches, be used in addition to the compensatory financing facility prior to utilisation of supplementary finance?

(c) If supplementary finance is to be granted only after reasonable use has been made of other sources of finance, how is such reasonable use to be interpreted?

(d) In what circumstances would a country be required to draw down its reserves or utilise credit on commercial terms before receiving assistance?

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) Is it appropriate to make the provision of supplementary finance conditional upon satisfactory performance by recipient countries in the execution of development programmes?

(b) Assuming that the Agency and the recipient country are to agree upon certain performance requirements, should such requirements be limited to the results achieved by development programmes or should they extend to particular policies whereby such results are obtained?

(c) In what way could a distinction be drawn between technical and political aspects of development programmes?

(d) Which features of a development would be the subject of agreement between the Agency and the recipient country?

(e) What provisions would be made for countries without an overall development plan?

(f) Would it be possible for a country to modify its plan or programme in certain respects without seeking the consent of the Agency?

(g) Would the understanding between the Agency and recipient countries differ in any respect from understandings required by international financial agencies in the provision of basic development finance or balance of payments accommodation?

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 considerations which the Agency should take into account in dealing with such a claim.

(a) Do the projections of export earnings of the type provided for in the Bank Study constitute an acceptable method of determining "reasonable expectations"?

(b) What would be the relationship between calculations of shortfalls by the Bank and the Fund?

(c) What relative emphasis would be placed on shortfalls from export projections and on implementation of the agreement with the Agency concerning performance criteria in dealing with a claim for supplementary finance?

(d) Is it possible to determine in advance the extent of the discretion of the Agency in determining whether or not supplementary finance was to be provided in particular cases?

6. The appropriate period of time for which the relevant projections of exports should bd established and for which the concomitant obligations of the Agency and the developing country concerned respectively should be assumed.

(a) Should the projections and obligations referred to above conform to the planning period of the countries concerned?

(b) Under what circumstances should export projections be revised?

(c) What minimum period of time should elapse before a revision in projections could be undertaken?

(d) How would such revisions affect the obligations ensuring the implementation of a development programme, of the Agency, donor countries and recipient countries?

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) How is coordination to be achieved among performance requirements in connexion with bilateral aid programmes, other sources of development assistance, IMF stabilization programmes and the proposed supplementary financial measures?

(b) What would be the relationship between the Fund's compensatory financing facility and the proposed supplementary financial measures?

(c) Would the proposed scheme provide assistance if, as cited in Note 2(iii) of resolution A.IV.18, "when the IMF drawings were due to be repaid, exports had not recovered sufficiently for this to be possible without disruption of development"?

(d) If a country had resorted to other sources of finance to meet an export shortfall, would the proposed scheme provide assistance if exports had not recovered sufficiently to permit repayment of the previous loans without disruption of the countries development programmes?

8. 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 1/ to which the terms of

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1/ TD/B/73, Annex A (i)

reference are annexed.

The fifth and sixth paragraphs of the resolution are as follows:

The Committee on Invisibles and Financing related to Trade:

* * *

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 to 15 1/ 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.

9. The status, membership and function 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.

Paragraphs 7 and 8 of the recommendation are as follows :

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) 2/ 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.

1/ Argentina, Brazil, Ceylon, Federal Republic of Germany, France, Ghana, India, Japan, Sweden, United Arab Republic, United Kingdom of Great Britain and Northern Ireland, United States of America, Yugoslavia. If one or two members of Group D wish to join, their countries would be added to the list of members.

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

8. Resources from 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.

FORM No. 58

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Friedman

DATE: June 29, 1966

FROM: Bimal Jalan

SUBJECT:

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Bimal —
Mr Friedman wants to
know — what will his answer be?

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Yours sincerely,

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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) Is it appropriate to make the provision of supplementary finance conditional upon satisfactory performance by recipient countries in the execution of development programmes?

(b) Assuming that the Agency and the recipient country are to agree upon certain performance requirements, should such requirements be limited to the results achieved by development programmes or should they extend to particular policies whereby such results are obtained?

(c) In what way could a distinction be drawn between technical and political aspects of development programmes?

program

(d) Which features of a development would be the subject of agreement between the Agency and the recipient country?

(e) What provisions would be made for countries without an overall development plan?

(f) Would it be possible for a country to modify its plan or programme in certain respects without seeking the consent of the Agency?

(g) Would the understanding between the Agency and recipient countries differ in any respect from understandings required by international financial agencies in the provision of basic development finance ~~or~~ balance of payments accommodation?

short-term

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 considerations which the Agency should take into account in dealing with such a claim.

(a) Do the projections of export earnings of the type provided for in the Bank Study constitute an acceptable method of determining "reasonable expectations"?

(b) What would be the relationship between calculations of shortfalls by the Bank and the Fund?

(c) What relative emphasis would be placed on shortfalls from export projections and on implementation of the agreement with the Agency concerning performance criteria in dealing with a claim for supplementary finance?

(d) Is it possible to determine in advance the extent of the discretion of the Agency in determining whether or not supplementary finance was to be provided in particular cases?

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) Should the projections and obligations referred to above conform to the planning period of the countries concerned?

(b) Under what circumstances should export projections be revised?

(c) What minimum period of time should elapse before a revision in projections could be undertaken?

(d) How would such revisions affect the obligations ensuring the implementation of a development programme, of the Agency, donor countries and recipient countries?

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) How is coordination to be achieved among performance requirements in connexion with bilateral aid programmes, other sources of development assistance, IMF stabilization programmes and the proposed supplementary financial measures?

(b) What would be the relationship between the Fund's compensatory financing facility and the proposed supplementary financial measures?

(c) Would the proposed scheme provide assistance if, as cited in Note 2(iii) of resolution A.IV.18, "when the IMF drawings were due to be repaid, exports had not recovered sufficiently for this to be possible without disruption of development"?

(d) If a country had resorted to other sources of finance to meet an export shortfall, would the proposed scheme provide assistance if exports had not recovered sufficiently to permit repayment of the previous loans without disruption of the countries development programmes?

8. 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 [1] to which the terms of

1/ TD/B/73, Annex A (i)

reference are annexed.

The fifth and sixth paragraphs of the resolution are as follows:

The Committee on Invisibles and Financing related to Trade:

* * *

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 to 15 1/ 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.

9. The status, membership and function 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.

Paragraphs 7 and 8 of the recommendation are as follows :

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) 2/ 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.

1/ Argentina, Brazil, Ceylon, Federal Republic of Germany, France, Ghana, India, Japan, Sweden, United Arab Republic, United Kingdom of Great Britain and Northern Ireland, United States of America, Yugoslavia. If one or two members of Group D wish to join, their countries would be added to the list of members.

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

8. Resources from 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.

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REFERENCE: TDS 213 (1)
Inter-Governmental Group
on Supplementary Financing.

28 June, 1966.

Dear Irving,

The latest information I have is that the meeting of the Inter-Governmental Group on Supplementary Financing is likely to take place for a two week period in Geneva beginning on September 12. There has been some talk in the last few days of trying to advance the meeting, but we are discouraging this because of the procedural difficulties involved.

I think it would be helpful if, in addition to anything that you might be thinking of presenting to the September meeting, we listed the various questions that were raised by delegations during the resumed session in connexion with each of the main headings of the terms of reference. I gather that this idea was discussed on the telephone last week by Mr. Erb and Mr. Jalan.

... I now enclose a draft of such a list of questions, and should appreciate your comments. I myself am leaving for Europe early next week, and should be glad to talk to you on the telephone about this later this week, if you are able to deal with the matter by then. If not, may I ask you to contact Mr. Toren, Chief of the Financing for Trade Section here who will be responsible in this area during my absence.

With best personal regards,

Yours sincerely,

Sidney

S.Dell, Director
New York Office of UNCTAD

Mr. Irving Friedman
Economic Adviser to the President
International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington D.C. 20433

DRAFT

TRADE AND DEVELOPMENT BOARD
Committee on Invisibles and Financing
related to Trade
Intergovernmental Group on Supplementary
Financial Measures.

CONSIDERATION OF THE SCHEME FOR SUPPLEMENTARY
FINANCIAL MEASURES CONTAINED IN THE REPORT OF THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT.

Note by the Secretary-General of UNCTAD

In connexion with the intergovernmental group's study of the proposed Supplementary Financial Measures (TD/B/43), the following questions have been prepared on the basis of reference made to the Report of the Committee on Invisibles and Financing related to Trade on its Resumed First Session (TD/B/73) and its annexes as well as to the Bank Study (TD/B/43). The questions have been organized under the headings contained in the group's terms of reference.

1. Questions affecting the scope of the scheme, including the treatment of overages and the regard to be paid to import prices.

(a) Is the primary objective of supplementary finance to avoid disruption of development programmes?

(b) Must shortfalls to be dealt with by the scheme be of a nature or duration which could not adequately be dealt with by available short-term balance of payment support?

(c) Should a prima facie case for assistance under the scheme be established on the basis of an adverse movement in export proceeds in real as well as in money terms?

(d) What arrangement would be appropriate in respect of a country which experiences an excess of exports (overage) over projected estimates?

(e) Should such overages be earmarked for offsetting shortfalls?

(f) Are there circumstances in which overages might be used for other purposes?

2. The form, terms and conditions for the provision of financial assistance to countries participating in the scheme.

(a) How could it be ensured that supplementary finance would be timely and certain?

(b) Should the terms of supplementary finance be similar to those being applied to basic development finance by the various international lending agencies?

(c) Should the Agency tailor the terms and conditions of supplementary finance to the overall financial and economic position of the country concerned?

(d) In what way would the debt service position of developing countries be taken into account in the determination of the terms and conditions of supplementary finance?

(e) What would be the most desirable length of maturity for loans provided by the Agency, keeping in mind the need for reconstitution of its resources?

(f) Should the Agency have the right in certain circumstances to request payment from participating countries earlier than originally stipulated?

(g) Should all feasible domestic adjustments be made which would not disrupt development programmes?

(h) Should such adjustments include "not encouraging continued investment and output in export sectors when world demand is falling, re-examining and adjusting some public expenditures to ensure the postponement of the relatively less urgent or less important, or altering the tax structure to the changed conditions"? [1]

1/Bank Study, p.51.

(i) If a reduction in planned investment in the export sector is indicated by structural change in world demand or supply, should correspondingly larger investments be made in diversifying the rest of the economy?

(j) Would the scheme assist in this diversification?

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 modifications which the Group may suggest) would be available.

(a) It is agreed that $300 to $400 million per year would be the amount required to operate the scheme.

(b) To what extent should ordinary resources of the IMF, i.e. gold and credit tranches, be used in addition to the compensatory financing facility prior to utilization of supplementary finance?

(c) If supplementary finance is to be granted only after reasonable use has been made of other sources of finance, how is such reasonable use to be interpreted?

(d) In what circumstances would a country be required to draw down its reserves or utilize credit on commercial terms before receiving assistance?

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) Is it appropriate to make the provision of supplementary finance conditional upon satisfactory performance by recipient countries in the execution of development programmes?

(b) Assuming that the Agency and the recipient country are to agree upon certain performance requirements, should such requirements be limited to the results achieved by development programmes or should they extend to particular policies whereby such results are obtained?

(c) In what way could a distinction be drawn between technical and political aspects of development programmes?

(d) Which features of a development would be the subject of agreement between the Agency and the recipient country?

(e) What provisions would be made for countries without an overall development plan?

(f) Would it be possible for a country to modify its plan or programme in certain respects without seeking the consent of the Agency?

(g) Would the understanding between the Agency and recipient countries differ in any respect from understandings required by international financial agencies in the provision of basic development finance or balance of payments accommodation?

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 considerations which the Agency should take into account in dealing with such a claim.

(a) Do the projections of export earnings of the type provided for in the Bank Study constitute an acceptable method of determining "reasonable expectations"?

(b) What would be the relationship between calculations of shortfalls by the Bank and the Fund?

(c) What relative emphasis would be placed on shortfalls from export projections and on implementation of the agreement with the Agency concerning performance criteria in dealing with a claim for supplementary finance?

(d) Is it possible to determine in advance the extent of the discretion of the Agency in determining whether or not supplementary finance was to be provided in particular cases?

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) Should the projections and obligations referred to above conform to the planning period of the countries concerned?

(b) Under what circumstances should export projections be revised?

(c) What minimum period of time should elapse before a revision in projections could be undertaken?

(d) How would such revisions affect the obligations ensuring the implementation of a development programme, of the Agency, donor countries and recipient countries?

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) How is coordination to be achieved among performance requirements in connexion with bilateral aid programmes, other sources of development assistance, IMF stabilization programmes and the proposed supplementary financial measures?

(b) What would be the relationship between the Fund's compensatory financing facility and the proposed supplementary financial measures?

(c) Would the proposed scheme provide assistance if, as cited in Note 2(iii) of resolution A.IV.18, "when the IMF drawings were due to be repaid, exports had not recovered sufficiently for this to be possible without disruption of development"?

(d) If a country had resorted to other sources of finance to meet an export shortfall, would the proposed scheme provide assistance if exports had not recovered sufficiently to permit repayment of the previous loans without disruption of the countries development programmes?

8. 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 1/ to which the terms of

1/ TD/B/73, Annex A (i)

reference are annexed.

The fifth and sixth paragraphs of the resolution are as follows:

The Committee on Invisibles and Financing related to Trade:

* * *

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 to 15 1/ 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.

9. The status, membership and function 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.

Paragraphs 7 and 8 of the recommendation are as follows :

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) 2/ 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.

1/ Argentina, Brazil, Ceylon, Federal Republic of Germany, France, Ghana, India, Japan, Sweden, United Arab Republic, United Kingdom of Great Britain and Northern Ireland, United States of America, Yugoslavia, If one or two members of Group D wish to join, their countries would be added to the list of members.

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

8. Resources from 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.

FORM No. 58

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: May 13, 1966

FROM: P. Pereira-Lira and Bimal Jalan

SUBJECT: Supplementary Finance.

Further to our memo of May 9, we enclose a revised list of subjects which need further consideration in connection with the Study on Supplementary Finance. The topics are the same as in the previous memo, but the list of issues under each topic has been considerably widened to include all identifiable questions - major and minor - that were raised at Geneva.

Attachment

FORM NO. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: May 9, 1966

FROM: P. Pereira-Lira PPL and Bimal Jalan BJ

SUBJECT: Supplementary Finance

In response to your note of today, we are enclosing a list of subjects which require further consideration in connection with the Study on Supplementary finance. We have included under each topic a number of questions which were raised at the UNCTAD meeting in Geneva. There is against each topic, a reference to the relevant items in the 'terms of reference' of the UNCTAD inter-governmental group.

List of Subjects for Further Work on New Study on Supplementary Finance Measures

1. Scope of the Scheme - (Item (i) in the terms of reference of the intergovernmental working group)

(a) The question of import prices - methodology of calculating export shortfalls in real rather than nominal terms. Basic experience with trying to use changes in import prices in calculating the magnitude of export shortfalls for the purposes of the Scheme. Possible effects on the size of the Scheme.

(b) Invisibles - what is meant by "...including invisibles, where appropriate."

(c) "Overages" - (i) Explanation of the concept of 'overages' and its operational significance in the Scheme; (ii) Prebisch's suggestion that accrued 'overages' should be used for the purpose of import of capital goods; (iii) the suggestion that the adequacy of the level of reserves should influence the consideration of overages. (iv) Israeli suggestion regarding identifying the import-content of overage and shortfalls ("value-added").

2. Policy Package and Performance - (Item (iv), (v) and (vi) in the terms of reference)

(a) Specification of the content of the policy package. The following points in particular have to be considered: (i) Prebisch's suggestion that distinction should be made between political and technical requirements of the plan. Should the Agency look at the realization of targets as the indicator of performance or should it also examine the policies underlying these targets? Should the Agency also examine the priorities in development such as social investment vs. productive investment? (ii) Elaboration of the concept of 'beyond the company's control' - Is prior understanding necessary to give this concept an operational meaning? (iii) The appropriate period of time for which the concomitant obligations of the Agency and the country would be assumed (iv) Would the "policy package" that a country agrees to with the Agency be the same for all international organizations? How would this co-ordination be achieved in practice?

3. Export Projections - (Item (v) and (vi) of the terms of reference)

(a) Methodology to be applied in the formulation of the projection. Can export projections be 'exact' enough to be used for determining the magnitude of shortfalls?

(b) The appropriate frequency of revision of projections.

4. The Role of the Agency as a Residual Lender - (Items (v) and (vii) in the terms of reference).

How would we determine: -

(a) The amount of "feasible domestic adjustment" in the programs, in particular the rold of ~~a~~ import reduction.

(b) the amount of reserves to be used.

(c) The amount of resources available from "other" sources, specifically the relationship of the Scheme with the IMF and bilateral agencies. Would the scheme refinance short-term obligations incurred to meet a shortfall from "other sources", especially the IMF?

5. Form, terms and conditions of assistance - (Item (ii) of the terms of reference)

(a) What would be the circumstances in which assistance to be given by the Agency would be tied to projects (p. 59 of the Study)?

(b) Should the terms of assistance be softer than basic development finance? What is meant by the 'terms of basic development finance - are these existing terms or 'desirable' terms?

(c) What are the circumstances under which the Agency could request advance repayment of its loan to a country?

6. Relationship with Commodity Agreements - (Item (viii) of the terms of reference.

What are their ~~ix~~ comparative effects on economic development assuming a situation in which not only the present Commodity Agreements but also a full "organization of markets" is in operation? Would the operation of the Scheme diminish the willingness of the countries to engage in new commodity agreements?

7. Size of the Scheme: (Item (iii) in the terms of reference)

(a) Examination of the '1.6 billion' figure in the Study, and adjusting it for scale in view of the fact that the Scheme is not likely to come into existence before 1968-69.

(b) How was the figure '300-400 m' derived?

(c) Should provision be made for the possibility of 'rationing' in the Scheme? How would this be handled?

8. Financing of the Scheme - (paragraph 3 of the terms of reference).

9. The Nature of the Agency - (Item (viii) of the terms of reference)

What would be the criteria for admission into the membership of the Agency? Should the Agency be an existing organization or a new one? (the terms of reference have a reference to the possibility of IDA as the Agency).

10. Legal Questions:

(a) If the Agency is the IDA, how would one allow for the possible participation of non-member countries such as ~~x~~ Switzerland and the Eastern European countries.

List of Subjects for Further Work on Supplementary Finance Measures (Revised)

1. Scope of the Scheme. (Item (i) in the terms of reference of the intergovernmental working group.)

(A) The question of import prices - methodology of calculating export shortfalls in real rather than nominal terms. Bank experience in trying to use changes in import prices when calculating the magnitude of export shortfalls for purposes of the Scheme. Possible effects on the size of the Scheme.

(B) Invisibles - What is meant by "...including invisibles where appropriate "? (Yugoslavia).

(C) Overages - Explanation of the concept and its operational significance in the Scheme, taking into account the following points:

(i) Is the suggested treatment of overages practicable? (Argentina).

(ii) Would it not lead to an immobilization of resources, preventing countries to develop as fast as possible? (Argentina). In the world of today with the predominance of the preoccupation of development over that of stability and with the existence of international financial mechanisms to deal with balance of payments deficits, the unexpected export earnings should be used to increase the imports of capital goods. The resources so used in favorable cyclical periods could be recovered in case of subsequent shortfalls through the operation of international financial institutions (Prebisch).

(iii) Deduction of overages would only be reasonable when countries have adequate reserves (Brazil).

(iv) Should overages be carried from one planning period to the next? (United Kingdom).

(v) Use of subsequent overages to repay loans previously received will work against the principle that the loans should be long term and will adversely affect the ability to repay short term credits needed to take care of temporary fluctuations of exports. (Turkey).

(vi) Suggestion that consideration should be given to the import content of overages and shortfalls ("value added") (Israel).

(D) Other specific points raised:

(i) Would an unexpected export shortfall, caused by the eventual liquidation of strategic stockpiles by a developed country be taken into account by the Agency? (Nigeria).

(ii) The Scheme does not provide loans to developing countries suffering from a fall in export prices, if this is compensated by an increase in volume which maintains total export earnings. It should. (Turkey).

2. Policy Package and Performance. (Items (iv), (v) and (vi) in the terms of reference.)

(A) Specification of the content of the "policy package" - the understanding between the Agency and the country - taking into account the following points:

(i) The point raised by Prebisch. If a group of international institutions recognize in some form the need to provide resources during the lifetime of a plan, it has to make a thorough study of the plan, of its soundness as regards the objective in view, of the resources required to carry it out and of its other characteristics. The question is: how far can the international lending agency go in analyzing purely domestic measures taken by a country? To what extent will countries submitting a plan be required to adopt a certain type of measure? Should the Agency look at the realization of targets as the indicator of performance or should it also examine the policy underlining these targets? For example, is the Agency going to enter into the consideration of the policy measures (monetary, fiscal, etc.) which the country will apply in order to fulfill its undertaking to mobilize its own savings, or is it only going to accept the country's commitment? Is the Agency going to demand that specific policy be followed so as to achieve the target? Should the Agency also examine the priorities in development such as social investment versus productive investment? Difficulties encountered by a country in applying a particular policy within the framework of its concepts of economic development can be assessed only in the light of the experience acquired by the people of that country. A dividing line should be drawn between the technical requirements (fundamental requirements for the soundness of a plan and for its application) and what may be called its political requirements (the aspects which fall within a country's exclusive right of determination.) Without prejudice to the evaluation of the plan and its implementation by international credit agencies, the plan should first be evaluated by a small group of impartial experts. The purpose would be to insure the greatest measure of objectivity in the analysis and to obtain impartial advice on certain fundamental aspects of economic development policy. This sort of measure might dispel the apprehensions some developing countries have shown in regard to the problem of "policy package". All this being said, however, does not mean that countries might not be interested in receiving technical assistance (multilateral or bilateral) for the purpose of determining what kind of measures should be applied.

(ii) When approving the Plan, it would be advisable that the Agency would limit itself only to offering several possible alternatives, leaving to the authorities of the countries concerned the responsibility for selecting appropriate targets and policy measures (Nigeria; also mentioned in the Committee's Report).

(iii) Shouldn't the examination of the "policy package" be restricted to export policy? There is no need to examine the entire plan in order to establish the existence of export shortfalls (Nigeria and Report).

(iv) There is no need for a thorough examination of the country's development program and policies to establish whether the shortfall is beyond the country's control and whether it can disrupt the development program. A reply to these questions can be obtained on the basis of a balance of payments analysis alone.

First, as to being beyond a country's control, an examination could be made of the domestic prices of exportable commodities and of their available supplies. As to the potential disruption, a comparison could be made of the shortfalls with compressible imports defined as imports of consumer goods and of the raw materials needed for domestic production (Turkey).

(v) Would there be an examination of the "policy package" for supplementary financing distinct from that which would apply to basic development financing? (Israel).

(vi) The Agency should have the power to interpret the extent of the development program that may be advisable for a particular country, so that the less developed among the developing countries that need the Scheme most can particupate in it (Mexico).

(vii) To what extent could the countries change the plans without the consent of the Agency? (Canada and Report).

(viii) Explanation of the idea that the Scheme would involve "heavier accountability for performance" (Nigeria).

(B) Elaboration of the concept of "beyond the country's control", taking into account the following points:

(i) Is prior understanding necessary to give this concept an operational meaning?

(ii) Even with previous understanding, the availability of supplementary finance is not automatic. The Scheme requires a surveillance of the country's development plan and policy which is too extensive in view of the aid which would be forthcoming (Turkey).

(iii) It will be necessary to determine to what extent drawings will be automatic or will depend on the decisions of the Agency after the shortfalls (Nigeria).

(iv) Decisions as to the factors to be considered "beyond the country's control" should not depend only on the Agency but also take into account the view of the participating country. (Nigeria).

(v) How would the Scheme consider a shortfall in the mobilization of domestic resources for the financing of the development plan? (Israel).

(C) The appropriate period of time for which the concommitant obligations of the Agency and the countries would be assumed.

(D) Would the "policy package" that a country agrees to with the Agency be the same for all international organizations? How would this coordination be achieved in practice?

3. Export Projection. (Items (v) and (vi) of the terms of reference.)

(A) Explanation of the methodology to be applied in the formulation of projections taking into account the following points:

(i) As of now, there is no adequate technical basis to establish export projections, but it is hoped that when the Scheme is to be implemented it will be possible to prepare them in agreement with the interested countries (Mexico).

(ii) The Bank's suggestion has been mainly viewed in relation to commodity exports; but projections would presumably have also to cover manufactured goods and invisibles. It is necessary to decide whether projections would be established for these items. (Switzerland).

(iii) How would the export projections work in the context of a "rolling" plan? (Trinidad and Tobago).

(iv) Some guidelines should be established for the elaboration of export projections to avoid a pessimistic bias which would prevent a country from benefitting from the Scheme (U.A.R.).

(B) Can export projections be "exact" enough to be used for determining the magnitude of the shortfalls? (Germany and Report).

(C) The appropriate frequency of revisions of projections taking into account the following points:

(i) Projections should be revised early, so that the Scheme could not be used for the preservation of situations which are out of date (Germany).

(ii) How would the problem of structural changes be handled by the Scheme? (Finland).

(iii) Is it wise to establish projections on a definite basis for a period of four to five years when the intention is to adjust the development plans themselves periodically? (Switzerland).

(iv) Too frequent a revision of projections would defeat the purpose for which they were made (Canada).

4. <u>The Role of the Agency as a Residual Lender</u>. (Items (v) and (vii) in the terms of reference.)

How would the Agency determine:

(A) The amount of "feasible domestic adjustment" taking into account the following points:

(i) The possible role of reduction in imports of "superfluous" or "luxury" consumption goods and even of other goods which are not indispensable for economic development (Prebisch).

(ii) The effect on domestic adjustment of the degree of import which the country has already achieved and specifically the unemployment problem which the reduction in imports of raw material for local production of consumer goods might create (Israel).

(iii) Could the adjustment mean a cut in the development program? (Brazil and Report).

(B) The amount of reserves to be used.

(C) The amount of funds available from "other sources", taking into account the following points:

(i) The Scheme lays too much emphasis on the residual character of the loan. Countries should be entitled to obtain financing from the Scheme before having exhausted all possible assistance from other sources (Yugoslavia).

(ii) This requirement represents a source of delays which would prevent supplementary financing from being provided with the speed recognized by the Bank as indispensable for the success of the Scheme (Argentina and Report).

(iii) Can the role of the Agency as a lender of last resort work in practice? Countries might try to avoid difficult negotiations with other sources of funds which might establish more strict conditions for financial support (Germany and Report).

(iv) For the Scheme to operate as a lender of the last resort, the Agency will have to establish an efficient coordination with the other international financial agencies so that their role in meeting the shortfalls will be well defined. (Italy, Ghana and Report).

(v) Can different types of shortfalls be identified so that different Agencies would take care of them? (India).

(vi) Would the Agency refinance indebtedness taken at other sources of funds, especially the IMF short term compensatory facility? (India and Yugoslavia).

5. Form, Terms and Conditions of Assistance. (Item (ii) of the terms of reference.)

(A) What would be the circumstances in which assistance to be given by the Agency would be tied to projects? (Page 59 of the Study) (Turkey).

(B) What should be the terms of supplementary financing, considering the following points:

(i) Chapter 5 of the Study can be read in different ways. The terms should be concessionary and lenient as indicated in the UNCTAD resolution (Brazil, Yugoslavia).

(ii) The terms of supplementary finance should be more lenient than those of basic finance because (a) the savings and debt servicing capacity of the country would have diminished because of a contraction in exports; (b) the bridging of the exchange gap through the Scheme can only insure a continuation of development according to the plan but does not generate extra foreign currency earnings in the future (Prebisch, Israel and Report).

(iii) The policy to be adopted with regard to terms and conditions should be decided by common agreement between the Agency and the government and not solely by the Agency (Argentina).

(iv) The International Chamber of Commerce has called attention to the fact that the sufficiency of funds for the Scheme would depend on the speed with which the loans are repaid. An embarrassing situation might arise if the Scheme could not quickly offer the needed help. This might occur if the funds are frozen in long term obligations. The Scheme would then have assumed the role of providing for basic development finance. This should not be its objective. Attention should, therefore, be given to an adequate rotation of funds (Belgium).

(v) The possibility of grouping countries in a number of categories according to the terms on which they should receive assistance (Everts).

(C) What are the circumstances under which the Agency could request advance repayment of its loans to a country? (Brazil, Nigeria and Report). The idea would be self-defeating because development plans should promote improvement in economic conditions (Argentina).

6. Relationship with Commodity Agreements. (Item (viii) of the terms of reference.)

The relationship of the Scheme to commodity agreements has to be further studied, taking into account the following points:

(i) What are their comparative effects on economic development assuming a situation in which not only the present commodity agreements but also a full "organization of market" is in operation?

(ii) Would the operation of the Scheme diminish the willingness of the countries, developed and developing, to engage in new commodity agreements? (France).

(iii) Although both approaches should converge and supplement each other, acceptance of the Scheme should be conditional to the adoption of further measures to promote stabilization in the primary products market (Belgium).

7. Size of the Scheme. (Item (iii) in the terms of reference.)

(A) Examination of the "$1.6 billion" figure in the Study, adjusting it for scale in view of the fact that the Scheme is not likely to come into existence before 1968-69. Account should also be taken of the following:

(i) Relatively small downward fluctuations in primary commodity prices may cause deficiencies in exchange receipts of considerable magnitude (Brazil).

(B) Reexamination of the "$300-400 million" figure, taking into account the following points:

(i) The amount of financing needed cannot be more than an approximation because it would depend on the authority and the policy of the Agency and because other sources of funds would be involved to finance the shortfalls. (Germany).

(ii) Countries might try to apply directly for supplementary financing, avoiding negotiations with "stricter" sources of credit. This would influence the amount of funds needed to run the Scheme (Germany).

(iii) Effect on the amount of financing needed if all countries could be admitted to participate in the Scheme (Mexico).

(iv) Effect on the size of the Scheme if import prices were to be taken into account.

(C) Should provision be made for the possibility of "rationing" in the Scheme. How would this be handled?

8. Financing of the Scheme. (Paragraph 3 of the terms of reference.)

Points to be considered:

(i) One cannot hope for more than $300-400 million a year because of the other demands of international aid (Sweden).

(ii) The Horowitz proposal could be a source of funds to finance the Scheme (Israel).

(iii) A country's contribution must be subject to a maximum because of budgetary limitations (Germany).

(iv) All industrialized countries should be able to contribute to the financing of the Scheme (Belgium).

(v) The idea of having some developing countries also contribute to the financing of the Scheme is a good one. This Scheme should not only be international but truly cooperative. It is understood that the extent of the contribution of the developing countries would have to take into account their relative ability (Ghana).

(vi) In determining the amounts to be contributed, the balance of payments situation of the creditor countries has also to be considered. Many of these countries are subject to the same balance of payments fluctuations as the developing countries (Finland).

9. The Nature of the Agency. (Item (viii) of the terms of reference.)

(A) Should the Agency be an existing organization or a new one? (The terms of reference refer to the possibility of IDA as the Agency.)

(i) Any future Agency should be truly universal so that all UNCTAD countries could participate (Yugoslavia).

(ii) The Agency should not be a servant of the developed countries. The less developed countries should play a role in it. The automomy of the Agency is to be limited by the existence of a governing body (U. K.).

(B) What would be the criteria for admission of a country into the membership of an Agency? (Yugoslavia).

10. Legal Questions. If the Agency is IDA, how would one allow for a possible participation of non-member countries such as Switzerland and the Eastern European countries?

Messrs. Pereira-Lira and Jalan May 23, 1966

Irving S. Friedman

Supplementary Finance Study

On the basis of our discussion and your list of questions, please prepare a list of subjects which you think we ought to start working on immediately. This list should include either important matters which will take considerable time to finish or which are a prerequisite to going on to other subjects.

I am a little worried that we have not yet begun to farm out the work to others.

cc: Mr. Frank

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

JUN 7 1966

We thought we might send the attached memo to Messrs. Macone and Sarma on the consideration of the question of invisibles in the Supplementary Finance Scheme. We hope paragraph 4 of this memo correctly states your explanation of this point, as given to the delegates in Geneva.

Please let us know.

P. Pereira Lira
pp

Phoned approval to PL - who said keep this one for our files - would send others within DJG 6/9/66

SFS

OFFICE MEMORANDUM

TO: Messrs. A. Macone and N. A. Sarma DATE: June 7, 1966

FROM: Paulo H. Pereira Lira and Bimal Jalan

SUBJECT: Supplementary Finance Scheme - Treatment of the Receipts of "invisibles"

1. A few delegations in Geneva (Canada, India and Yugoslavia) raised the question of how the Supplementary Finance Scheme would deal with the receipts from "invisibles".

2. The doubt seems to have been suggested by the following passage in the Study (p. 8): "An agreement on export expectations should be spelled out in the form of a precise projection. For this purpose export receipts are defined to include merchandise and, where appropriate, invisible items."

3. The expression "where appropriate" derives directly from the original UNCTAD Resolution itself, where it is said that "an adverse movement for the purposes of the Scheme should be regarded as a shortfall from reasonable expectations of the level of export proceeds (including in appropriate cases invisible exports).

4. Being directly questioned about this point in an informal meeting with the delegations, Mr. Friedman's answer to the query was that the Bank Staff Scheme was related to the total export earnings of a country and that this included the proceeds from "invisibles". It was not common for developing countries to have large important single invisible items as a source of foreign exchange, with the possible exception of tourism. When this would be true, projections would probably be made for the outstanding item or items and the remainder of the proceeds of invisibles would be estimated on some residual basis. It was a situation analogous to that of merchandise exports. What the study meant was that usually, the export proceeds of invisibles would be determined on a residual basis.

5. We thought that we should bring this explanation offered by Mr. Friedman to your attention since you might wish to include the consideration of this question of invisibles in writing the paper on "projections". A related matter is, of course, how would the inclusion of invisibles with export projection affect our estimate of the size of the Scheme, which in the Study was based on merchandise exports only.

PHPereira Lira/eb

cc: Mr. Friedman
Professor Frank
Messrs. Sundrum
Hulley

Sem/ISF

Form No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | CONFIDENTIAL INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman DATE: June 2, 1966

FROM: Paulo H. Pereira Lira PL

SUBJECT: Supplementary Finance Study-Meeting With Professor Frank on May 27, 1966

For the discussion of the balance of payments implications of the eventual contribution of countries to finance the Supplementary Finance Scheme (assuming that countries decide to establish it), the following calendar of events was found reasonable at this stage:

September 1967	-	Approval by UNCTAD of elaborated Scheme.
End of 1967/early 1968	-	Drafting of international agreement to be submitted to governments.
Spring 1968	-	Submission of agreement to governments for approval, hopefully by the end of 1968.
1969	-	Scheme begins operations; need for financial commitments or contributions; disbursements would take place only on an exceptional basis.
1970	-	First year of ordinary operations of the Scheme, when disbursements would occur normally.
1969/1974	-	Period for which initial contributions would be made.
(1973	-	First year for which new funds could possibly be needed in case there would be a miscalculation of the necessary finance for the first five-year period).

PHPereira Lira/eb

cc: Professor Frank
Messrs. Hulley
Jalan

Mr Friedman

Distr.
GENERAL

TD/B/75*
31 May 1966

ORIGINAL: ENGLISH

United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD
Fourth session
Geneva, 30 August-23 September 1966

LETTER DATED 18 MAY 1966 FROM THE CHAIRMAN OF THE GROUP OF 31 COUNTRIES, MEMBERS OF THE TRADE AND DEVELOPMENT BOARD FROM THE GROUP OF 77, ADDRESSED TO THE SECRETARY-GENERAL OF THE CONFERENCE

The Group of 31 developing countries met this morning and exchanged views on recent developments regarding the problem of international liquidity. They noted that the Group of 10 are in the process of considering a solution to this problem at their meeting in Rome today and that there is a possibility of an agreement being reached among them in the near future. The attention of the Group of 31 was drawn to the reported possibility of a scheme being agreed upon in which only a few leading countries will be able to participate.

2. Such an approach to the problem of international liquidity will be contrary to the principles set out in the Memorandum of the developing countries on international liquidity, presented in New York January-February 1966 at the Special Session of the UNCTAD Committee on Invisibles and Financing related to Trade (TD/B/57, annex I). As pointed out in paragraph 11 of that Memorandum, decisions regarding international monetary reform which are likely to affect not only a restricted group of countries but the entire international community must, in fairness, be taken within a framework which makes possible the broadest international participation.

3. The developing countries wish to reiterate, in particular, the principle embodied in the abovementioned memorandum that monetary management and co-operation should be truly international and that all countries, which are prepared to share in both the benefits and obligations of such new monetary arrangements as may be

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* This document will be subsequently circulated in Geneva.

66-14863

/...

devised, should be eligible to participate in the creation of new reserve assets. The adoption of any scheme which is limited to a small group of countries will be a serious violation of this principle and will endanger the development of international monetary co-operation.

4. The developing countries are gravely concerned with the developments referred to in paragraph 1 above and while reiterating their views contained in the Memorandum referred to in paragraph 2 above, also endorse once again the recommendations of the UNCTAD Group of Experts on International Monetary co-operation as contained in document TD/B/32. The Group of 31 has directed me, in my capacity as Chairman, to request you to bring the contents of this communication to the attention of the States Members of UNCTAD and the appropriate international monetary institutions.

(Signed) F.S. ARKHURST
Chairman of the Group of 31 Countries, members of the Trade and Development Board from the Group of 77

DRAFT
June 28, 1966

The Role of the Agency as a Residual Lender

1. The objective of the scheme is to provide long-term financing for that part of an export shortfall which cannot be absorbed ~~[illegible]~~ without disrupting the country's development program. ~~[illegible]~~ In its discussion with a member country the Agency would agree, among other things, on how much of other sources of finance could reasonably be mobilized in the event of an export shortfall. These other sources would include the IMF compensatory tranche and other IMF help, if available and other appropriate credit sources such as the "emergency foreign trade loans" advanced by Export - Import Bank or program loans as well as the "Food for Peace Program" of the United States A.I.D. In addition to the possibility of financing part of the shortfall from other sources of finance, the Agency would also agree, to the extent feasible, on what adjustment measures the member country could take. This understanding need not be fixed through time, since the Agency would remain in contact with the member country, enabling, among other matters, an adaptation of these adjustment measures, from time to time, to changing circumstances. The scheme's resources would be used only if further resources were needed to prevent disruption of development.

2. The above condition that "other sources of finance be utilized first before recourse is made to the Scheme was thought necessary for two reasons: (i) the necessity of economizing in the need for "new" funds for the Scheme by making the maximum use of all other existing sources of finance and (ii) to permit the IMF compensatory

financing facility to play a role in cases where shortfalls subsequently prove to be temporary or when a country's export and indebtedness position is such as to make short-term borrowing sensible. However, it should be emphasized that in thinking of the Agency as a residual lender, we do not envisage a time-consuming sequence in the utilization of other sources of finance. The Agency is meant to be a residual lender in the accounting sense only, and not in the chronological sense, that is, it is not envisaged that the country would go to all these sources of finance <u>after</u> a shortfall has occurred and if turned down or left with a deficit would come to the Agency for assistance. The understanding as to the use of other sources of finance would be formulated at the beginning of the projection period, as a part of the broader understanding on development policies etc., rather than left to be arrived at at the time of the shortfall. In acting as the residual lender, the Agency would still have the essential objective of the Scheme in mind, i.e. "to provide needed finance with certainty and speed on appropriate terms in order to avoid disruption of development programs, so long as members act in accordance with agreed development policies."

3. As has been mentioned earlier, the amount of resources that the Agency may be expected to provide in the event of a shortfall would be determined not only by the availability of "other" sources of finance but also the extent of domestic adjustment that is feasible by the country itself. The purpose of the Scheme is thus to facilitate the continuation of the growth process by protecting a development

program from disruption due to unexpected factors rather than to relieve the country of all burdens of adjustment. In countries where the income-effect of a shortfall in exports is significant(the income-elasticity of imports being positive) part of this adjustment may be automatic. Moreover, to the extent that the adverse export movement reflects a shortfall in volume rather than simply a price phenomenon, there is likely to be some saving of foreign exchange that otherwise would have been spent on direct and indirect imported imputs (in countries where some exports are those of finished manufacturing or semi-manufacturing articles based on imported raw materials). 1/ In addition to some of these adjustments, which are more or less automatic, in certain cases, there may be room for desirable adjustments of a more final character through deliberate public policy. For example, by restricting the import of "superfluous" or luxury consumption foods which are not quite indispensable for economic development. The domestic adjustment that a country can take would, however, differ from case to case, but it should be emphasised that these adjustments would not involve a disruption of the investment and development program (or other harmful short-term measures designed only to meet the consequences of an export shortfall) except in cases where the whole world picture has changed so drastically that it makes a total recasting of the development strategy desirable. The latter cases are likely to be extremely infrequent, and in all but the very few, the presumption would be that an export shortfall should not invalidate the plan priorities or planned pattern of resource allocation. Nor should it involve a cut back in the level of planned expenditure, which is otherwise considered desirable.

1/ On 'import content of shortfalls and overages', see Annex I of Note on "Overages".

4. The "other" sources of finance that a country would be expected to use (if these are available) before drawing upon the Agency are: (a) its own reserves (b) IMF compensatory financing facility (c) drawing under the ordinary tranche policy of the Fund and (d) bi-lateral loans and grants of a suitable character.

5. Whether a country can and should use its resources in the event of an export shortfall would depend on whether the country and the Agency consider it advisable to use them. 1/ For quite a large number of developing countries, reserves are already at a dangerously low level, and it may be undesirable for them to run these down any further. Yet there are a number of countries (the oil-producing countries come immediately to mind) which may have a sufficient cushion in their exchange reserves to absorb the consequences of an export shortfall. The countries which have been accummulating reserves and are in quite a comfortable reserve position are obviously those where part or whole of the export shortfalls would be expected to be covered by drawing down reserves. There may be some others for which reserves are not excessive but which may still be in a position to use some of their reserves to finance the shortfall. In all cases the extent and the manner in which reserves are expected to be used would be made a part of the initial understanding between the Agency and the country. Active cooperation of the IMF would be sought for guidance as to the advisability of using reserves to meet a shortfall in particular cases.

6. The use of IMF resources both under the compensatory financing facility and the ordinary tranche policy of the Fund for the purposes of meeting an export shortfall would depend on the existing external debt of

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1/ See note on "Overages".

the country. The IMF assistance is strictly short to medium and is provided to enable a country to tide over a difficult balance of payments situation. 1/ In cases where the external debt of a country is already uncomfortable, the use of IMF resources for development purposes even if available may be undesirable, and if the Scheme comes into existence no use need be made of IMF resources in such cases to meet the adverse effects of an export shortfall. The efficient working of this mechanism would call for close collaboration between the Agency and the other international financial agencies, and the Scheme is predicated on the assumption that such collaboration would be forthcoming.

7. Having agreed with the country that it would, to a certain extent, use short or medium-term financing to offset the shortfall, the question arises whether the Agency would refinance these debts at the time of repayment, if exports of the country have not recovered and not other possibilities of refinancing exist. It seems to us that the Scheme should be prepared to do so, since otherwise the country at the time of repayment would have to resort to commercial borrowing of an undesirable character or else cut-back its own development program, precisely the results that the Scheme is meant to avoid. The use of IMF and other short and medium-term resources is justifiable only in cases where shortfalls prove (after the events) to be temporary; it proves to be persistent, the Scheme should in effect, finance such a shortfall by repaying the earlier debt with the IMF. If the Scheme were to undertake refinancing, it is quite likely that larger resources than initially estimated in the Study may be required.

1/ The IMF is reconsidering its compensatory financing facility. It is quite likely that proposed changes may in effect lengthen the repayment period for countries which are not in a position to make repayments within the normal period.

8. The possibility of using other sources of finance (e.g. the emergency foreign trade loans of the U.S. Export-Import Bank, the program loans and the "Food for Peace Program" of the U.S. AID, the World Food Program, etc.) would also have to be made a part of the initial understanding between the country and the Agency rather than left to be explored after the shortfall has taken place. ~~This would, of course, call for coordination with other bilateral agencies but this should not be difficult if the provision of such assistance under the Scheme is made contingent on agreed plans and policies.~~ In cases where bilateral agencies can not provide the necessary assurance or fail to provide the agreed assistance, the Agency would be responsible for providing adequate financing in the event of an export shortfall. Only with this guarantee on the part of the Agency can the need for maximizing the use of existing financial sources be combined with the need for timely and sufficient action.

File

Form No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: September 19, 1966

FROM: Paulo H. Pereira Lira

SUBJECT: Mr. Prebisch's Statement at the UNCTAD Board Meeting - August 31, 1966 (TD/B/103 Rev.1)

Referring to the statement above by Mr. Prebisch, please note the following points, from the point of view of Supplementary Finance:

a) he expressed the view that financing of buffer stocks, in combination with the Scheme for Supplementary Finance might provide the developing countries with the long sought solution to their problems of external instability (p.8);

b) he advanced once more the idea that the development plans should be appraised by an impartial group of experts before being submitted to lending agencies, as a means to overcome political difficulties raised by the evaluation process (p.17).

Form No. 89
(2.66)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

ROUTING SLIP	Date Aug. 22, 1966

OFFICE OF THE PRESIDENT

Name	Room No.
~~Mr. Demuth's Office~~	
Mr Friedman	

	To Handle		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment		Per Our Conversation
	Full Report		Recommendation
XX	Information		Signature
	Initial		Send On

Remarks

M. Lee

Cope's Copy of Cable routed
to P. Lara
8/22

From

FORM No. 26
(6-65)

AUG 22 REC'D

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

AUG 22 P.M.

INCOMING CABLE

DATE AND TIME OF CABLE: AUGUST 19, 1966

LOG NO.: WU 11 - AUGUST 22

TO: INTBAFRAD

FROM: GENEVA VIA UN NEW YORK

ROUTING

ACTION COPY: MR. WOODS

INFORMATION COPY: MR. COPE

DECODED BY:

TEXT:

WOODS

FOLLOWING FORMAL WISH EXPRESSED BY ONE GOVERNMENT AND POSSIBLE INTEREST BY OTHERS TO HAVE MEETING OF INTERGOVERNMENTAL GROUP ON SUPPLEMENTARY FINANCING POSTPONED FOR A FEW WEEKS FOLLOWING CABLE BEING SENT TODAY TO GOVERNMENTS MEMBERS OF GROUP "HAVE HONOUR TO REFER TO LETTER DATED 25 JULY 1966 FROM SECRETARY GENERAL UNCTAD IN WHICH YOUR GOVERNMENT WAS INFORMED THAT TENTATIVE ARRANGEMENTS WERE BEING MADE FOR INTERGOVERNMENTAL GROUP ON SUPPLEMENTARY FINANCING TO MEET ON 12 SEPTEMBER 1966 IN GENEVA SUBJECT TO APPROVAL OF TRADE AND DEVELOPMENT BOARD AT BEGINNING OF ITS 4TH SESSION STARTING ON 30 AUGUST 1966. HOWEVER ONE GOVERNMENT MEMBER OF GROUP HAS NOW OFFICIALLY EXPRESSED WISH TO SEE MEETING POSTPONED FOR A FEW WEEKS AND SEVERAL FURTHER INDICATIONS HAVE BEEN RECEIVED BY THIS SECRETARIAT THAT SUCH POSTPONEMENT MIGHT BE WELCOMED BY OTHER MEMBER GOVERNMENTS. UNDER CIRCUMSTANCES IT IS SUGGESTED THAT FINAL DATE FOR MEETING BE LEFT ENTIRELY OPEN AND BE DETERMINED AT BEGINNING OF BOARD'S SESSION IN CONSULTATION WITH REPRESENTATIVES OF GOVERNMENTS CONCERNED COIDAN". WE SHALL BE IN TOUCH WITH YOU CONCERNING ALTERNATIVE DATE FOR MEETING SHOULD IT BE CONSIDERED APPROPRIATE BY GOVERNMENTS TO DEPART FROM

FORM No. 26
(6-65)

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

INCOMING CABLE

DATE AND TIME OF CABLE: AUGUST 19, 1966

LOG NO.: WU 11 - AUGUST 22

TO: INTBAFRAD

FROM: GENEVA VIA UN NEW YORK

ROUTING

ACTION COPY: MR. WOODS

INFORMATION COPY: MR. COPE

DECODED BY:

TEXT:

PAGE TWO

ORIGINAL DATE OF 12 SEPTEMBER

COIDAN DIRECTOR DIVN CONFERENCE AFFAIRS UNCTAD

UNATIONS GENEVA

MISS LINAHAN TELEPHONED DURING WEEKEND

MT

FOR INFORMATION REGARDING CABLES, PLEASE CALL THE COMMUNICATIONS UNIT EXT. 2021

ORIGINAL

August 22, 1966

Mr. Pereira Lira 1036

As information in Mr. Friedman's absence

and any handling you deem necessary.

Helyn Sparks

Copy of cable of Aug. 22 UNCTAD Geneva to Woods
re postponing Sept. 12 meeting in Geneva on Supplementary Financing
for a "few weeks"

Form No. 58 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

Unctad S+S

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: July 5, 1966

FROM: Paulo H. Pereira Lira PL

SUBJECT: Supplementary Finance Study - Contact with Ghana.

I called today Mr. Hansen from the African Department about the telegram we sent him in Accra. While there, he got in touch with the Authorities but they felt they did not have then people qualified to discuss the Supplementary Finance Study with the Bank. The few people that could handle the subject were away in New York for the Cocoa Conference. Moreover their top people seem to be engaged in more pressing matters (debt rescheduling in August, Commonwealth Conference in September). The Chairman of the National Economic Committee told Mr. Hansen he would communicate with him about the idea at a later date. Mr. Hansen will keep Mr. Kamarck informed. (I made clear once again to Mr. Hansen that our objective is to help the Ghanaians - if they so want - to study further the question in the best informed way possible.)

FORM No. 89
(9-62)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

ROUTING SLIP

Date SEP 9 1966

OFFICE OF THE PRESIDENT

Name	Room No.
~~Mr. Pereira Lira~~	~~1036~~
" ~~Bimal Jalan~~	~~1032~~
" Isaiah Frank	1056
~~" Sarma~~	~~1036~~
" ~~Sundrum~~	~~1036~~

	Action		Note and File
	Approval		Note and Return
	Comment		Prepare Reply
	Full Report		Previous Papers
X	Information		Recommendation
	Initial		Signature

Remarks

From Irving S. Friedman

FORM No. 26
(6-65)

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

INCOMING CABLE

DATE AND TIME OF CABLE: SEPTEMBER 7, 1966 1052

LOG NO.: RC 4 - SEPTEMBER 8

TO: INTBAFRAD

FROM: GENEVE

ROUTING

ACTION COPY: MR. FRIEDMAN

INFORMATION COPY:

DECODED BY:

TEXT:

FOR FRIEDMAN

MANY THANKS MATERIAL TO BE ADDRESSED PREBISCH

GENEVA

CONSOLO

Send to S. F. Group -

MT

FOR INFORMATION REGARDING CABLES, PLEASE CALL THE COMMUNICATIONS UNIT EXT. 2021

ORIGINAL

UNCTAD -

Mr. Demuth

September 9, 1966

Irving S. Friedman

Intergovernmental Group Meeting -- Geneva

The Bank delegation to the Geneva meeting in October on supplementary finance will consist of Messrs. Friedman, Pereira Lira, and Jalan.

cc: Mr. Pereira Lira
Mr. Jalan

Mr. Woods

September 14, 1966

Irving S. Friedman

Statement by Mr. Prebisch at Trade and Development Board

Before seeing Dick's memorandum of September 14 I had had one of my younger men give me a brief summary of Mr. Prebisch's speech. He follows, among other things, developments with respect to supplementary finance.

I thought you and Dick might be interested in glancing at his note.

Attachment

cc: Mr. Demuth

FORM No. 89
(9-62)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

ROUTING SLIP	Date August 22

OFFICE OF THE PRESIDENT

Name	Room No.
Mr. Pereira Lira	1036

	Action		Note and File
	Approval		Note and Return
	Comment		Prepare Reply
	Full Report		Previous Papers
	Information		Recommendation
	Initial		Signature

Remarks

As information in Mr. Friedman's absence and any handling you deem necessary.

From

Helyn Sparks

FORM No. 26
(6.65)

UNCTAD

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

INCOMING CABLE

DATE AND TIME OF CABLE: AUGUST 19, 1966

LOG NO.: WU 11 - AUGUST 22

TO: INTBAFRAD

FROM: GENEVA VIA UN NEW YORK

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INFORMATION COPY: ~~MR. COPE~~ Friedman

DECODED BY:

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ACTION COPY: MR. WOODS

INFORMATION COPY: ~~MR. COPE~~ Friedman

DECODED BY:

TEXT:

PAGE TWO

ORIGINAL DATE OF 12 SEPTEMBER

COIDAN DIRECTOR DIVN CONFERENCE AFFAIRS UNCTAD

UNATIONS GENEVA

MISS LINAHAN TELEPHONED DURING WEEKEND

MT

FOR INFORMATION REGARDING CABLES, PLEASE CALL THE COMMUNICATIONS UNIT EXT. 2021

DUPLICATE

UNCTAD

FEDERICO CONSOLO
BERGUESHOTEL
GENEVA

SEPTEMBER 6, 1966

LT

SWITZERLAND

PLEASE INFORM EVARTS WE EXPECT TO BE DISTRIBUTING MATERIAL SOON STOP ASSUME PROPER CHANNEL FOR DISTRIBUTION IS THROUGH PREBISCH.

FRIEDMAN

Irving S. Friedman

Office of the President

FORM No. 26
(6-65)

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

INCOMING CABLE

DATE AND TIME OF CABLE: SEPTEMBER 2, 1966 1145

LOG NO.: RC 24 - SEPT. 5

TO: INTBAFRAD

FROM: GENEVE

ROUTING

ACTION COPY: MR. FRIEDMAN
MR. KAMARCK

INFORMATION COPY:

DECODED BY:

TEXT:

FOR FRIEDMAN KAMARCK

UNCTAD TD BOARD TODAY DECIDED THAT GROUP GOVERNMENTAL EXPERTS ON SUPPLEMENTARY FINANCING WILL BARRING UNFORESEEN CIRCUMSTANCES MEET GENEVA OCTOBER 10 THROUGH 14. EVERTS URGING EARLIEST DISTRIBUTION BANK REPORT ON QUESTIONS ARISING FROM APRIL MEETING

CONSOLO

NA

FOR INFORMATION REGARDING CABLES, PLEASE CALL THE COMMUNICATIONS UNIT EXT. 2021

ORIGINAL

TYPED

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

Mr. Friedman:

This is a copy of a cable sent to Mr. Lyle Hansen in Accra by Mr. Kamarck.

Paulo H. Pereira-Lira

PP

COPY

MR. LYLE HANSEN, AMBASSADOR HOTEL, ACCRA

June 13, 1966

Lt rate

GHANA

UNCTAD DISCUSSED BANK STUDY ON SUPPLEMENTARY FINANCE LAST APRIL IN GENEVA STOP SEVERAL DELEGATES SUGGESTED MIGHT BE USEFUL FOR BANK REPRESENTATIVES TO VISIT COUNTRIES TO DISCUSS SCHEME WITH GOVERNMENT OFFICIALS STOP GHANA IS MEMBER OF INTERGOVERNMENTAL GROUP OF EXPERTS WHICH WILL POSSIBLY MEET IN SEPTEMBER ON SCHEME STOP PLEASE LET GHANAIAN AUTHORITIES KNOW INFORMALLY THAT BANK IS AVAILABLE FOR EXCHANGE OF VIEWS IF THEY WOULD FIND THIS USEFUL STOP IN CASE OF POSITIVE REACTION YOU COULD HANDLE CONVERSATIONS IF CONVENIENT STOP IF YOU WOULD RATHER HAVE SOMEBODY ELSE FROM FRIEDMAN'S OFFICE TALK TO GHANAIANS BEST TIME FOR VISIT IS JUNE OR AUGUST STOP PLEASE CABLE REACTIONS.

ANDREW M. KAMARCK

Mr Friedman

COPY

INCOMING CABLE

AUGUST 19, 1966

WU 11 - AUGUST 22

INTBAFRAD

GENEVA VIA UN NEW YORK

ACTION COPY: MR. WOODS

INFORMATION
COPY: MR. COPE

WOODS

FOLLOWING FORMAL WISH EXPRESSED BY ONE GOVERNMENT AND POSSIBLE INTEREST BY OTHERS TO HAVE MEETING OF INTERGOVERNMENTAL GROUP ON SUPPLEMENTARY FINANCING POSTPONED FOR A FEW WEEKS FOLLOWING CABLE BEING SENT TODAY TO GOVERNMENTS MEMBERS OF GROUP "HAVE HONOUR TO REFER TO LETTER DATED 25 JULY 1966 FROM SECRETARY GENERAL UNCTAD IN WHICH YOUR GOVERNMENT WAS INFORMED THAT TENTATIVE ARRANGEMENTS WERE BEING MADE FOR INTERGOVERNMENTAL GROUP ON SUPPLEMENTARY FINANCING TO MEET ON 12 SEPTEMBER 1966 IN GENEVA SUBJECT TO APPROVAL OF TRADE AND DEVELOPMENT BOARD AT BEGINNING OF ITS 4TH SESSION STARTING ON 30 AUGUST 1966. HOWEVER ONE GOVERNMENT MEMBER OF GROUP HAS NOW OFFICIALLY EXPRESSED WISH TO SEE MEETING POSTPONED FOR A FEW WEEKS AND SEVERAL FURTHER INDICATIONS HAVE BEEN RECEIVED BY THIS SECRETARIAT THAT SUCH POSTPONEMENT MIGHT BE WELCOMED BY OTHER MEMBER GOVERNMENTS. UNDER CIRCUMSTANCES IT IS SUGGESTED THAT FINAL DATE FOR MEETING BE LEFT ENTIRELY OPEN AND BE DETERMINED AT BEGINNING OF BOARD'S SESSION IN CONSULTATION WITH REPRESENTATIVES OF GOVERNMENTS CONCERNED COIDAN". WE SHALL BE IN TOUCH WITH YOU CONCERNING ALTERNATIVE DATE FOR MEETING SHOULD IT BE CONSIDERED APPROPRIATE BY GOVERNMENTS TO DEPART FROM ORIGINAL DATE OF 12 SEPTEMBER

COIDAN DIRECTOR DIVN CONFERENCE AFFAIRS UNCTAD

UNATIONS GENEVA

[Copies to: Messrs. Kamarck, Consolo and Karasz]

September 16, 1966

Dear Mr. Coidan:

With reference to your cable TDO/280/1 of September 7, I am pleased to inform you that the Bank will be represented by Mr. Irving S. Friedman, the Economic Advisor to the President, and Messrs. P.H. Pereira Lira and B.N. Jalan at the forthcoming meeting of the Intergovernmental Group on Supplementary Financing in Geneva from October 10 to 14.

Sincerely yours,

Federico Consolo
Special Representative
for
United Nations Organizations

Mr. Paul Coidan
Director
Division of Conference Affairs
United Nations Conference on
Trade and Development
Palais des Nations
Geneva, Switzerland

FC:bmb

cc: Mr. Friedman

FORM NO. 75
(2-60)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

INTERNATIONAL DEVELOPMENT ASSOCIATION

ROUTING SLIP	Date August 3, 1966

NAME	ROOM NO.
Mr. Friedman	

	To Handle		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment		Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		Send On

REMARKS

From

MLHoffman

UNCTAD

TDO 280/1 August 2, 1966

Dear Dr. Prebisch:

Mr. Woods has asked me to reply to your letter of July 25, 1966 announcing the forthcoming meeting of the Intergovernmental Group on Supplementary Financing. This is just by way of an interim reply to say that the Bank will certainly be represented at the meeting and that when the dates have been definitely established we should be in a position to give you the names of our representatives.

Sincerely yours,

Michael L. Hoffman
Associate Director
Development Services Department

Dr. Raul Prebisch
Secretary-General
United Nations Conference on
Trade and Development
Palais des Nations
1211 Genève, Switzerland

cc: Messrs. Wishart
Friedman
Consolo