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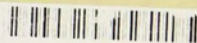
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Friedman UNCTAD Files - SEC Memos to EDs
on Suppl. Financing

May 1966 - Mar. 1967

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Irving Friedman UNCTAD Files on Supplementary Financing, Memos to EDs - Memos to EDs

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SecM69-113

FROM: The Secretary

March 11, 1969

MAR 11 1969

S.P.

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

TRADE AND DEVELOPMENT BOARD

EIGHTH SESSION

Attached is a report by the Bank's Special Representative for United Nations Organizations on the Eighth Session of the Trade and Development Board held in Geneva January 21 to February 10, 1969.

Distribution:

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

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

TRADE AND DEVELOPMENT BOARD

EIGHTH SESSION

The Eighth Session of the Trade and Development Board (TDB) met in Geneva from January 21 to February 10. Among the agenda items, those of principal interest to the Bank were (a) the role of the United Nations Conference on Trade and Development (UNCTAD) in the Second Development Decade (DDII), and (b) the international monetary system.

UNCTAD AND DD II

The discussions on this item were not substantive in nature. They reflected a difference between the developed countries, on the one hand, and the developing countries, on the other, concerning the entity which should have principal responsibility for formulating strategy for DDII. The developing countries want UNCTAD itself to play a dominant role in designing DDII strategy and urged at Geneva that an "Inter-Governmental Group," created at a prior TDB session over the objections of some developed countries, should serve as continuing machinery for consideration of that strategy. The developed countries, however, considered the appropriate organ to be the 54-member "Preparatory Committee," which had been created by the General Assembly, comprising the 27-member Economic Committee of the Economic and Social Council (ECOSOC)^{1/} plus 27 members of the U.N. or the specialized agencies to be designated by the President of the General Assembly on the nomination of the usual regional groups.

A complicating factor in the debate was that the Preparatory Committee had not been constituted at the time of the meeting of the TDB. The USSR and the Socialist Bloc had refused to participate in the Committee's work if, as then appeared likely (and as subsequently happened)^{2/}, the Federal Republic of Germany should be among the states designated for membership on the Preparatory Committee. The Inter-Governmental Group,

^{1/} Argentina, Belgium, Bulgaria, Chad, Congo (Brazzaville), France, Guatemala, India, Indonesia, Ireland, Jamaica, Japan, Kuwait, Libya, Mexico, Norway, Pakistan, Sierra Leone, Sudan, Tanzania, Turkey, USSR, U.K., U.S.A., Upper Volta, Uruguay, Yugoslavia.

^{2/} On February 20 the President of the General Assembly made the following designations: Algeria, Brazil, Burundi, Byelorussia, Cameroon, Canada, Ceylon, Colombia, Costa Rica, Federal Republic of Germany, Iran, Italy, Lebanon, Mauritius, Netherlands, Nigeria, Panama, Philippines, Poland, Romania, Spain, Sweden, Switzerland, Thailand, Tunisia, UAR, Venezuela. The Committee met on February 25, in the absence of the Socialist Bloc, elected Tunisia chairman and adopted rules of procedure. It is to meet in New York in April and in Geneva during June/July. Very likely efforts will be made to persuade the Socialist Bloc to participate in the Committee's work.

on the other hand, did meet in the course of the TDB session. It functioned in effect as a Committee of the Whole and its report to the TDB, presented as a target for DDII, amounted essentially to a restatement of the objectives espoused by the developing countries at UNCTAD I and II.

Eventually the developing countries agreed that DDII strategy should be entrusted to a resumed session of the TDB itself. There then arose the question whether the timing of such a resumed session should be related to the schedule of the Preparatory Committee, notwithstanding the uncertain future of that Committee. It was finally decided that the Secretary-General of UNCTAD should set "an appropriate date" for the resumed TDB session, one which would enable UNCTAD, whatever may happen to the Preparatory Committee, to make its contribution to DDII strategy by submitting a report to ECOSOC and, through ECOSOC, to the General Assembly.

INTERNATIONAL MONETARY REFORM

An UNCTAD II resolution called for the Secretary-General of UNCTAD to review, in consultation with the appropriate international institutions, the progress made toward reform of the international monetary system since UNCTAD I. In his report to the TDB, the Secretary-General, considering that further study was required, proposed appointment of an expert group. The TDB debated whether the Committee on Invisibles and Financing related to Trade (CIFT) could be immediately asked to set up such a group, or whether it was necessary first to seek the CIFT's views on the advisability of creating an expert group. The debate ended by requesting the Secretary-General of UNCTAD to appoint a group, after consulting with the CIFT, which would fix the group's terms of reference. Some developing country representatives expressed the view that the monetary system was becoming increasingly anachronistic, and damaging both developed and, in particular, developing country economies. It was suggested by developing countries that the expert group pay special attention to the possibility of linking the schemes for new liquidity (SDR's) to development finance, particularly in connection with the supplementary financing facility which is still under consideration by UNCTAD. Some of the developed countries were opposed to any such link.

The next session of the TDB is scheduled for August 26 to September 12, 1969 in Geneva. Items on the draft provisional agenda include DDII and the reports of the Inter-Governmental Group on Supplementary Financing and of the CIFT.

March 10, 1969

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SecM69-114

FROM: The Secretary

March 11, 1969

MAR 11 1969

UNITED NATIONS ECONOMIC COMMISSION FOR AFRICA

NINTH SESSION

Attached for information is a report on the Ninth Session of the UN Economic Commission for Africa held in Addis Ababa from February 3 to February 14, 1969. The report has been prepared by Mr. David L. Gordon, Chief of the Bank's Permanent Mission in Eastern Africa.

Distribution:

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

United Nations Economic Commission for Africa

Ninth Session

The Ninth Session of the Economic Commission for Africa, held in Addis Ababa February 3-14, 1969, celebrated the Commission's Tenth Anniversary. The Bank was represented during the first week by Messrs. Chaufournier and Wood and during the second by Mr. Gordon.

The Tenth Anniversary provided an appropriate occasion for members to appraise the Commission's record and establish terms of reference for its future work. A good deal of the comment reflected frustration at the meagerness of tangible results from ECA-sponsored studies and conferences. The delegates' speeches stressed several recurrent themes: the importance of self reliance, given the inadequacy and unreliability of external assistance; the desirability that the UN organs (e.g., FAO, UNESCO, UNIDO) decentralize their activities and channel them through ECA to a greater extent; the need for ECA now to emphasize operational as against essentially research functions; the importance of economic integration and the inadequacy of the African governments' performance on their pledges in this regard.

Four major resolutions (attached) were passed to define the direction and emphasis of the Commission's future work; to establish continuing machinery to review this work and to involve member governments more effectively; to encourage the decentralization of UN operational activities and of the ECA Secretariat itself (to its sub-regional offices); and to coordinate its work with the policy decisions of the Organization of African Unity.

References to the Bank were uniformly friendly. It was cited as the main exception to a general trend of declining amounts and hardening terms of external finance and its increased emphasis on agricultural and education projects was welcomed. The only specific criticism expressed was based on a mistaken premise, that the Bank was refusing to consider financing industry in the public sector.

March 6, 1969



ECONOMIC COMMISSION FOR AFRICA
Ninth session
Addis Ababa, 3-14 February 1969

COMMEMORATION OF THE TENTH ANNIVERSARY OF THE COMMISSION

Resolution 187(IX) adopted by the Commission at its 147th plenary meeting
on 10 February 1969

The Economic Commission for Africa,

Noting with satisfaction and appreciation the report prepared by the secretariat entitled "A Venture in Self-reliance", and the information paper "The Role of ECA in the Economic Expansion and Social Growth in Africa",

Emphasizing the importance of multinational and sub-regional co-operation in Africa as well as the need for the creation and strengthening of inter-governmental machinery to promote the undertaking of concerted action programmes,

Aware of the importance of the research undertaken by the secretariat on economic and social development in the continent, and the studies aimed at facilitating economic co-operation on a multinational and sub-regional basis,

Convinced that the problems engendered by the division of the world into affluent and indigent societies cannot be resolved except on the basis of self-reliance in Africa, the full co-operation of the more developed countries and the application of science and technology to the development of the region,

Affirms its support for the activities which the secretariat has undertaken in its first ten years of existence,

1. Urges upon member States the need to encourage a spirit of self-reliance and to take all appropriate measures for mobilizing domestic resources and for utilizing manpower;

2. Further urges member States to take all necessary steps to strengthen co-operation between countries in the same sub-region;

3. Calls upon member States to lend their full support to the Commission and its secretariat by adopting policies and taking initiatives, individually and collectively, in order to facilitate the effective implementation of the work programme approved by the Commission;

4. Invites member States to make use increasingly of the services available in the secretariat for the identification of projects and further planning, implementation and evaluation of national, multinational and sub-regional programmes;

5. Urges the industrialized countries to re-examine the form, content and volume of aid offered by them with a view to eliminating the effects of adverse terms of aid, tied loans and suppliers' credit on the economies of African countries, taking into account their level of economic development;

6. Strongly urges the industrialized countries to take all necessary measures in order to increase the export earnings of African countries, in particular, (i) to facilitate access to their markets of semi-manufactured and manufactured goods, including processed and semi-processed products, so as to enhance the prospects for the rapid industrialization of African countries and, (ii) to encourage co-operation in working out commodity agreements on products of particular interest in order to promote stabilization of prices in international markets for primary commodities;

7. Further calls upon the developed countries to take appropriate steps to ensure an increased share for African countries in the benefits of invisible trade, particularly shipping, other forms of transport, banking, insurance and tourism, taking care that the cost of such services are kept at a level favourable of the trade of African countries;

8. Requests member States to take steps to co-operate with the secretariat of the Economic Commission for Africa in publicizing widely the activities of the Commission;

9. Requests the Executive Secretary, as a special feature of the activities for the second United Nations Development Decade:

(a) To advise and assist the governments of member States, on request, in drawing up in a realistic manner specific targets for growth in the different sectors of the economy and in attaining them;

(b) To advise and assist the governments of member States, on request, in the planning of their manpower requirements and in drawing up programmes for training for economic and social development;

(c) To mobilize, when necessary, additional resources required for the purpose of assisting member States in their increasing efforts in the field of planning and development which will result from their active participation in the programme of the second Development Decade;

(d) In co-operation with the United Nations Development Programme (UNDP), the World Food Programme (WFP) and the United Nations system of specialized agencies, to take steps to assist countries of the region to cope with the particular problems which confront them in the implementation of their development plans and of the work programmes approved by the Commission;

(e) To take appropriate steps to ensure consultations with the system of specialized agencies and the United Nations Development Programme in order to secure a co-ordinated approach to their activities in Africa, so that the total resources available to the Commission and these agencies may be effectively applied to the development of the countries in the region;

(f) To take specific measures to ensure the co-operation of the United Nations system of specialized agencies in the implementation of the work programmes approved by the Commission and towards this end, to seek, as far as possible, to have joint work programmes with individual agencies in their respective areas of competence;

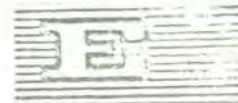
(g) To promote, through member States, the organization of national campaigns to secure popular support for the effort which will be required for the attainment of the objectives of the second United Nations Development Decade and in this regard to take cognizance of the action required to be taken by the secretariat and member States under resolution 169(VIII);

10. Further requests the Executive Secretary to accord special emphasis in the implementation of operational programmes for the economic and social action in the priority areas indicated by the Commission, the Economic and Social Council and the General Assembly;

11. Urges the Executive Secretary, in consultation with the sub-regions, to formulate programmes for economic and social action;

12. Recommends that the Executive Secretary should participate in the operation of the international machinery that might be established to evaluate, planning, policies and performance under the second United Nations Development Decade and for this purpose to assist in setting the standards and criteria which are appropriate for a meaningful assessment of economic and social progress in the African region;

13. Strongly requests that adequate staff, financial and other resources be made available to the secretariat to ensure the efficient performance of its tasks, and that steps be taken to ensure fuller decentralization to the Commission of operational activities of the United Nations programmes of technical co-operation in the region.



ECONOMIC COMMISSION FOR AFRICA
Ninth session
Addis Ababa, 3-14 February 1969

INSTITUTIONAL MACHINERY OF THE COMMISSION

Resolution 188(IX) adopted by the Commission at its 147th plenary meeting
on 10 February 1969

The Economic Commission for Africa,

Aware of the challenges facing the countries of the African region and the firm determination of these countries to mobilize their human and material resources to the maximum extent possible for the acceleration of their economic and social development during the next Development Decade,

Being anxious to strengthen the institutions of the Commission to enable it to play a more effective role in the economic and social development of the region,

Taking into account the importance of a more effective involvement of member States in the activities of the Commission,

Recommends that:

(a) The regular biennial sessions of the Commission be at the Ministerial level and be known as "The Conference of Ministers";

(b) A Committee of the Whole, to be known as the Technical Committee of Experts, be established;

(c) An Executive Committee be established;

(d) The terms of reference for these three bodies be as set out in the annex.

TERMS OF REFERENCE OF THE CONFERENCE OF MINISTERS
TECHNICAL COMMITTEE OF EXPERTS AND EXECUTIVE COMMITTEE

A. The Conference of Ministers

Composition: The Conference of Ministers shall consist of the Ministers of the governments of member States responsible for economic affairs, or financial affairs, planning and development.

Meetings: The Conference of Ministers shall meet in accordance with the terms of article 1 of the rules and procedure of the Commission.

Rules of Procedure: The rules of procedure of the Conference shall be the same as those of the Commission.

Functions:

(a) To consider matters of policy and the priorities to be assigned to the programmes and other activities of the Commission;

(b) To consider intra-African and international economic policy issues and to make recommendations on such issues to the member States;

(c) To review programme implementation during the preceding biennium and examine and approve the programme of work proposed for the succeeding biennium;

(d) To consider reports submitted to it by the Executive Committee and the Technical Committee of Experts;

(e) To consider questions relating to the representation of the African region on international and inter-governmental bodies dealing with economic and social matters.

B. The Technical Committee of Experts

Composition: The Technical Committee of Experts shall consist of the principal or other senior government officials of member States who are concerned with economic affairs, planning, development, and both financial and fiscal matters.

Meetings: The Technical Committee of Experts shall meet once a year. In years when the Conference of Ministers is scheduled, the Committee shall meet at least one week prior to the opening of the Conference.

Rules of Procedure: The rules of procedure of the Technical Committee shall be the same as those of the Commission.

Functions:

(a) To examine studies prepared by the secretariat and to make appropriate reports to the Conference of Ministers;

(b) To assist the secretariat in the formulation of its work programmes and priorities;

(c) To take measures to ensure active contact between the secretariat and the governments of member States at the working level of competent officials.

C. The Executive Committee

Composition: The Executive Committee shall be composed of:

(a) The Chairman, the two Vice-Chairmen and the Rapporteur of the session of the Conference of Ministers;

(b) Two representatives from each sub-region, each office-bearer of the Conference of Ministers being regarded as representing the sub-region in which his country is situated;

(c) Two African members of ECOSOC, one representing the English-speaking and one the French-speaking countries;

(d) Two African members of the Governing Council of UNDP, one representing the English-speaking and one the French-speaking countries;

Provided that no one country may have more than one representative on the Executive Committee.

The Chairman of the Conference of Ministers shall be the Chairman of the Executive Committee.

Meetings: The Executive Committee shall meet at least twice a year. The Chairman of the Executive Committee may in special circumstances and after consultation with the Executive Secretary of the Commission summon an emergency meeting of the Executive Committee. The Chairman of the Executive Committee may invite all African members of ECOSOC and of the Governing Council of UNDP to attend meetings of the Executive Committee as may be required.

Rules of Procedure: The rules of procedure of the Executive Committee shall be the same as those of the Commission.

Functions:

(a) To assist the Executive Secretary in the implementation of the resolutions of the Commission and the work programme of the secretariat;

(b) To provide a link between the secretariat, member States and the sub-regions; in this connexion, to consider reports of the sub-regions and their operational programmes, to assist the Executive Secretary in ensuring full commitment and involvement of member States in sub-regional activities, to foster and co-ordinate the activities of inter-governmental organizations;

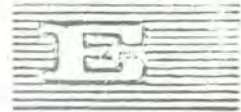
(c) In consultation with the secretariat, to recommend effective ways and means of fostering closer co-operation between the Commission and the United Nations bodies and various international organizations interested and involved in development efforts in Africa;

(d) To assist the secretariat to establish close working relations with the African permanent representatives at the United Nations, as well as the African members on various international organizations so as to keep them fully informed of the problems affecting economic and social development in the African region;

(e) To bring to the attention of member States the activities of other international organizations which may affect the progress of the economic and social development of African countries;

(f) In liaison with the Executive Secretary, to strengthen the cordial relations existing between the Commission and the political organs of the OAU (such as the Council of Ministers, the Assembly of Heads of State and Government) by means of regular consultations with the secretariat of the OAU.

(g) To make reports to the Conference of Ministers in the most appropriate manner.



ECONOMIC COMMISSION FOR AFRICA
Ninth session
Addis Ababa, 3-14 February 1969

ORGANIZATION, STRUCTURE AND FUNCTIONS OF THE SECRETARIAT

Resolution 189(IX) adopted by the Commission at its 147th plenary meeting
on 10 February 1969

The Economic Commission for Africa,

Realizing that the major tasks to be undertaken by the Commission require that the organization, structure and functions of its secretariat, including its sub-regional offices, be reviewed, and adequate staff, financial and other resources made available to it in order that it may be in a position to expand its operational activities,

Recalling the General Assembly resolutions 1709(XVI) and 1823(XVII) and Economic and Social Council resolutions 793(XXX), 823(XXXII) and 879(XXXIV) on decentralization of the economic and social activities of the United Nations and strengthening of the regional economic commissions,

Noting that machinery has been established by the UNDP to study the capacity of the organization to undertake development programmes and to examine the possibilities for more substantial and effective decentralization of operational activities to the regional economic commissions,

1. Urges that a more substantial and effective decentralization of operational activities be carried out in accordance with the resolutions of the Economic and Social Council and of the General Assembly;

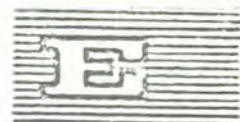
2. Requests the Executive Secretary

(a) To undertake a review of the organization, structure and functions of the secretariat, including its sub-regional offices, and to report to the Conference of Ministers through its Executive Committee for decision;

(b) To promote conferences and consultations among the leaders of the sub-regions and to assist them in formulating policies and programmes of action;

(c) To review the existing sub-regional groupings and, where appropriate, make recommendations to the Conference of Ministers to achieve more realistic groupings, taking into consideration community of interests and geographical factors;

3. Recommends that arrangements be made to ensure that the Commission is represented at regional conferences convened by the UNDP, the United Nations system of specialized agencies and the International Atomic Energy Agency (IAEA) where questions related to the economic and social development of Africa are discussed in order to ensure that the decisions taken at such conferences are fully reflected in the work programme of the Commission.



ECONOMIC COMMISSION FOR AFRICA
Ninth session
Addis Ababa, 3-14 February 1969

RELATIONS WITH THE ORGANIZATION OF AFRICAN UNITY

Resolution 190(IX) adopted by the Commission at its 147th plenary
meeting on 10 February 1969

The Economic Commission for Africa,

Appreciating that the Commission is an economic and social organization established to serve the needs of the African region, and that its activities should complement those of the OAU and other African inter-governmental organizations in the economic and social development of the region,

In accordance with the terms of reference of the Commission which in its paragraph 1 empowers it to initiate and participate in measures for facilitating concerted action for economic and social development in Africa and in its paragraph 12 enables it to establish liaison with inter-governmental organizations in Africa,

In accordance with article II of the Charter of the Organization of African Unity, which entrusts to that organization responsibility for co-operation between independent States of Africa in economic and social fields, and to this end, the co-ordination and intensification of their efforts so as to promote better living conditions for the peoples of Africa,

In keeping with the decisions by the Assembly of Heads of State and Government of the OAU to remain the highest body for encouragement and orientation in matters of economic and social policy development on the African continent,

Taking into account the desire many times reiterated by ECA and the OAU to collaborate closely in utilizing to the maximum, the complementary characteristics and possibilities of the two organizations, in the interest of African development,

Recalling the various resolutions adopted by the United Nations General Assembly and the Assembly of Heads of State and Government on co-operation between the OAU and the United Nations,

Recalling the Agreement on Co-operation signed by the Secretary-General of the United Nations and the Administrative Secretary General of the Organization of African Unity,

1. Agrees that close and rational co-operation should be promoted within the political bodies and the policy-making organs of ECA and the OAU, and to this end

2. Calls upon:

(a) African ministers and senior officials in charge of economic and social development henceforth to co-ordinate closely their activities within the framework of the Commission at its ministerial level and the OAU Economic and Social Commission;

(b) African ministers and senior officials working within the framework of ECA and the OAU Economic and Social Commission to be constantly guided by decisions of the Assembly of Heads of State and Government of the OAU in economic and social matters;

3. Recommends that reports on the activities of ECA be presented regularly for the consideration of the Assembly of Heads of State and Government of the OAU in order that the Commission might enjoy the necessary political support;

4. Requests the secretariat of OAU and ECA to pursue all forms of desired co-operation and to find the best ways and means of increasing the efficiency of such co-operation in the interest of the development of Africa and to report regularly to the policy-making bodies of ECA and the OAU.

Recalling the Agreement on Co-operation signed by the Secretary-General of the United Nations and the Administrative Secretary General of the Organization of African Unity,

1. Agrees that close and rational co-operation should be promoted within the political bodies and the policy-making organs of ECA and the OAU, and to this end

2. Calls upon:

(a) African ministers and senior officials in charge of economic and social development henceforth to co-ordinate closely their activities within the framework of the Commission at its ministerial level and the OAU Economic and Social Commission;

(b) African ministers and senior officials working within the framework of ECA and the OAU Economic and Social Commission to be constantly guided by decisions of the Assembly of Heads of State and Government of the OAU in economic and social matters;

3. Recommends that reports on the activities of ECA be presented regularly for the consideration of the Assembly of Heads of State and Government of the OAU in order that the Commission might enjoy the necessary political support;

4. Requests the secretariat of OAU and ECA to pursue all forms of desired co-operation and to find the best ways and means of increasing the efficiency of such co-operation in the interest of the development of Africa and to report regularly to the policy-making bodies of ECA and the OAU.

SecM68-439

FROM: The Secretary

November 20, 1968

INTERGOVERNMENTAL GROUP ON SUPPLEMENTARY FINANCING

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

Distribution:

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

Intergovernmental Group on Supplementary Financing

Fourth Session: Geneva: October 21-25, 1968

1. This first session of the expanded group was mainly preparatory for the next session to be held during June 23 - July 4, 1969. Mr. Mermolja of Yugoslavia continues as Chairman, and Mr. Dunkel of Switzerland is the Vice-Chairman-cum-Rapporteur.
2. It would seem to be the intention of the Group to conclude its work at the next session. The program of work agreed upon at this session requests the UNCTAD Secretariat, Bank Staff, and Fund Staff to provide additional material and advice. Any written material is to be furnished by the end of March, 1969.
3. Among the questions that directly involve the staff of the Bank are those relating to cost estimates, and the relationship between Supplementary Finance (SF) and Fund's Compensatory Finance Facility (CFF). The Bank Staff would look at the cost estimates again, using available data for more recent years.
4. The proposal that had been put forward earlier by the representative of the Federal Republic of Germany, as well as refinancing the Fund's Compensatory Financing Facility, were referred to. Additional material and analysis are to be furnished by the UNCTAD Secretariat (in consultation with whoever proposed these ideas) for the next session.
5. The discussion on points of substance was brief and along the same lines as at UNCTAD. The developing countries and some developed countries continue to support the essentials of the Bank Staff Scheme. Other developed countries express varying viewpoints with respect to the Bank Staff Scheme and other proposals and ideas referred to above. One country takes the position that stabilization of commodity prices is the basic attack on the problem.
6. The next session is likely to conclude the work of the Group. The final report of the Group would be considered at the Ninth Session of the Trade and Development Board during August 26 - September 12, 1969.
7. The report of this session (provisional text) is attached hereto. Questions which concern us are as follows:
 - (i) Could the Agency's consultations within the framework of the SF Bank Staff Scheme be fitted into the consultations normally conducted by the Bank with developing countries? Would any adaptations be necessary?

- (ii) To what extent could the proposed SF Bank Staff Scheme be implemented by the Bank and the IDA, within their existing articles of agreement, if the Executive Directors so agreed and the necessary funds were made available?
- (iii) To what extent would the Bank staff be able, despite the fact that much depends on judgement, to revise the cost estimates contained in its study by using more recent statistical data and taking account of developments which have occurred since the study was prepared (or by allowing for mid-term revisions)? Is there any practical possibility of pursuing an alternative method of estimating the costs of the Scheme, without devoting undue additional work, e.g. by conducting a study of the amounts which would have been required to protect the development plans of a limited number of countries which have undergone a particularly marked export shortfall over the last five-year period? (While we may look into the latter part of the question, it is only the first part, i.e. on the lines of our own earlier study, that we have to attend to.)
- (iv) How would the CFF method of assessment of export shortfalls differ in practice from that of SF when applied over a five-year period? Would CFF assessment be self-correcting through adjustment over a period of time to a lower level of export earnings? Would the SF method be brought closer to those of the assessment of shortfalls yielded by the CFF method if mid-term revision was carried out under SF? How much practical difference would there be in the case of countries not having a five-year plan or having a plan with annual revisions?
- (v) If a country qualifies simultaneously for CFF and SF, what would the practical consequences be of such a situation as regards the provision of funds because of the divergencies between the rates of interest payable, the length of the credit period, the limits on any single drawing and the policy conditions? Would there be any conflict between the cooperative action envisaged under the CFF and any measures of adjustment envisaged under the SF Scheme? To what extent would obtaining help under SF be conditional upon prior use of CFF? Would a joint committee of the Fund and the Agency or a similar institutional arrangement be feasible?

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

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

Intergovernmental Group on Supplementary Financing
Fourth session

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

(Note by the Rapporteur)

I.

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

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

Intergovernmental Group on Supplementary Financing
Fourth session

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

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

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

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

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

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

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

Questions related to the study of other proposals

- (i) Would the secretariat undertake to analyze further Scheme A in Chapter IV of Report and possible variants thereof, after such consultations as it deems necessary to enable the Group at its next session to address itself to the following questions:

- the nature of the guide-lines to be used in determining ex post what would have been the reasonable expectations at a point of time in the past, with reference to which the shortfall would be measured.^{1/}

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

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

The following questions are also relevant:

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

Intergovernmental Group on Supplementary Financing
Fourth session

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

Organizational matters

Note by the Rapporteur

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

May 16 1968

Mr. Sarma

1036

Are you satisfied with what was
written about Supplementary Finance in
the UNCTAD II report? (SecM68-136)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

May 15 1968

Mr. Sarma's note on Final Report on UNCTAD II was received here May 6 and included among ACTION material handed to you on that day. We did not receive anything from Mr. Demuth.

DM

Sarma

3) N L S F

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

SecM68-136

FROM: The Secretary

May 13, 1968

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Attached for information is the final report on the United Nations Conference on Trade and Development, which recently concluded its session in New Delhi. This has been prepared by the Bank delegation to the Conference. An interim report covering the period February 1-29, 1968 was distributed as document SecM68-63, dated March 14, 1968.

Mr. Mac G. & Mrs. Ketchum

*If Mr. James has ever given
Report for ~~comment~~ ^{comment}?*

Did I get report for comment?

Distribution:

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

Final Report on the Second Session of UNCTAD, New Delhi

Prepared by the Bank Delegation

Introduction

The Bank and Fund delegations to UNCTAD II submitted to their respective Boards a joint interim report (SecM68-63) covering the first month of the Conference. Final reports have been prepared independently, in part because of the difficulty of consultation, now that the members of the delegations have returned to their posts in Washington, Geneva and Paris, and in part because each delegation wishes to emphasize points of particular interest to its own institution. This final report covers the month of March 1968, and comments on the results of the Conference.

As stated at the end of the interim report, the plenary meeting was interrupted at the end of February. Five committees and three working groups were entrusted with the agenda of the Conference. However, general statements took up most of the time, and towards the end of the period allotted for the work of the committees it became clear that there would be no agreement on any of the main points on the agenda. It was, therefore, decided to create smaller "contact groups" to discuss and negotiate individual agenda items, and to report to the appropriate Committee or to the Conference.

One of UNCTAD's shortcomings is the difficulty of holding down membership in working bodies. The membership of the contact groups soon grew to the point of being practically co-extensive with the committees whose work they were expected to simplify. As a result, first "sub-contact groups," then "mini-contact groups" were created. The proliferation of groups was so great that, towards the middle of March, 96 were meeting and new teams of interpreters had to be flown from all parts of the world to New Delhi.

By March 15, the Conference was near collapse. To avoid this, the chairmen of the five committees and of the three working groups were authorized to try to work out texts to be submitted to the Plenary Session of the Conference. In the week preceding March 24, each committee chairman submitted texts containing such few provisions as had been agreed upon, as well as all ideas under discussion.

On March 24, a day before the original closing date, the President suggested, first, a 24-hour extension until midnight, March 26, then a further extension to midnight, March 29. In the meantime, negotiations were taking place, most of them outside the Conference building, to find at least some compromise formulas, some of them face-saving only. The results are described below.

Drafts of some of the resolutions approved by the Conference were circulated to the Executive Directors on April 8 (SecM68-94). The final text of those resolutions of most interest to the Bank, although substantially the same as the drafts, are attached to this report for ease of

reference. Unless otherwise noted, the resolutions were approved unanimously or with only the socialist countries opposing them or abstaining.

Committees

Committee I. This Committee dealt with commodities. A proposal of particular interest to the Bank relates to "studies by international financial institutions on stabilization of commodity prices" (TD/II/RES/19 (Annex 1)). A draft resolution submitted by France was considerably modified in the course of the long and complicated negotiations, particularly because of the opposition of the United Kingdom and the United States, as well as of other developed countries. The final version takes note of the Rio resolutions on commodity price stabilization, calls the attention of the Bank/IDA and the Fund to the importance which UNCTAD attaches to the study requested in those resolutions, and expresses the hope that the study will contribute to the solution of commodity problems and that it will concentrate, inter alia, on the problems of financing buffer stocks and diversification. The resolution also asks that the study be transmitted to UNCTAD.

There was great interest in the study, which was frequently mentioned in committee discussions during the last weeks of the Conference. Given that interest, and the (perhaps exaggerated) expectations of concrete results from the study, there is likely to be keen disappointment if the study does not put forward proposals for immediate action of a satisfactory nature.

TD/II/RES/16 (Annex 2) is a rather modest step towards "international action on commodities," covering primarily sugar, rubber, jute, fats and oils and cocoa. It was agreed that commodity conferences on sugar and cocoa should be held soon after UNCTAD II, and that studies and other action with respect to other designated commodities should be undertaken.

The Committee could not reach agreement on proposals for guaranteeing stable and remunerative commodity prices, financing buffer stocks or creating a diversification fund. The developed countries would not accept a proposal that the production of synthetics should be discouraged. The Common Market countries did not support a proposal for an agreement on access to markets for agricultural products, claiming that it would endanger their own common agricultural policy.

Committee II. Among the items of concern to this Committee was the subject of preferences, a major Conference issue and one as to which hope for an agreement was expressed early and sustained throughout the Conference. Just prior to UNCTAD, the OECD countries agreed in principle on a formula for a general non-discriminatory, non-reciprocal preference scheme in favor of the less developed countries. Such a scheme, if and when worked out, would mark an important shift in commercial policy. However, efforts to work out a scheme at UNCTAD II ran into disagreement on two

major points: (a) "product coverage," i.e., the inclusion of processed and semi-processed agricultural products in the scheme, and (b) the phasing out of existing preferences (e.g., those now enjoyed by a number of African countries) in favor of the proposed general preferences. There was substantial conflict on these points among the "77," in particular between the Africans and the Latin Americans. The question of reverse preferences (enjoyed by some developed countries in the markets of some developing countries) was another principal point of disagreement.

The resolution adopted (TD/II/RES/21 (Annex 3)) did not resolve these issues. After noting "the unanimous agreement in favor of the early establishment of a mutually acceptable system of generalized, non-reciprocal, non-discriminatory preferences which would be beneficial to the developing countries," the resolution established a Special Committee on Preferences to carry forward consultations to achieve agreement on a preference scheme, which would increase developing countries' export earnings, promote their industrialization and accelerate their rates of economic growth. The Conference said that details should be settled during 1969 in the hope that the arrangements could take effect in early 1970.

Committee III. This Committee, which dealt with financing, was the most important one from the standpoint of the Bank. While at UNCTAD I the Committee on Financing was very active and was regarded as relatively successful, at New Delhi it made little substantive progress. It did take seven decisions, as follows:

- (a) Aid volume target (TD/II/RES/27 (Annex 4)). It was agreed that the 1% target for net financial resource transfers should be set in terms of Gross National Product instead of national income. In principle, the new target is a substantial advance over that agreed upon at UNCTAD I. However, no date was set for its achievement.
- (b) Improving the mobilization of internal resources (TD/II/RES/28 (Annex 5)). This resolution, recognizing that primary responsibility for development rests with the developing countries themselves, stresses the importance of effective development planning and plan implementation, the need for a balanced use of internal and external resources, and the importance of continuing frank exchanges between providers and recipients of external resources. The Conference recommended that attention be given to the further development and extension of consortia and consultative groups.
- (c) Improving the terms of aid and alleviating problems of external indebtedness (TD/II/RES/29 (Annex 6)). This resolution declares that the terms of aid need to be softened and brought into line with the needs of individual developing countries. It expresses the hope that a review to be undertaken by DAC

of the terms and conditions specified in existing DAC Recommendations will result in further liberalization. The resolution further specifies that efforts should be made to raise the norms set out in the present [DAC] target, by increasing the amount of grant aid, by improving interest rates, maturities or grace periods, or by increasing the grant element of official aid commitments. Finally, it states the view of the developing countries and some developed countries that, by 1975, the bulk of bilateral lending should be on terms generally comparable though not necessarily identical with IDA terms. It says that in principle aid should be untied, although it recognizes that many donors find tying necessary for balance of payments and other reasons. It urges donors to try to reduce the extent of tying and to mitigate any harmful effects. It adds that "The developed countries generally take note of these suggestions and agree to consider them in the further evolution of their lending policies."

The resolution also asks the IBRD to prepare, or participate in, certain studies:

- (i) The IBRD was asked to prepare a study, in consultation with the Secretary-General of UNCTAD and the IMF, "of possible improvements in techniques of lending, having to do among other things with conditions and schedules of repayments." In particular, the study is to "take into account the possibility of postponing or waiving interest and amortization payments in years of foreign exchange stringency."
- (ii) The U.N. Secretariat and the IBRD were asked to continue, in consultation with other institutions, the study of commercial credit, requested by UNCTAD I, giving consideration to the possibility of refinancing by international financing institutions of commercial credit extended by developing countries.
- (iii) The Secretary-General of UNCTAD was invited to seek the advice of the IBRD and the regional development banks on the question of access to capital markets by developing countries and multilateral development institutions.
- (iv) The IMF was invited to prepare, in consultation with governments, the UNCTAD Secretariat, the IBRD and other appropriate institutions, a study on commercial credits including suppliers' credits. (This study would be a continuation of an IBRD staff study prepared in response to a request by UNCTAD I.)

The resolution also mentions the Horowitz proposal (on which the Bank staff prepared a study at the request of UNCTAD I) and invites the Secretary-General of UNCTAD to keep the matter under review, and to report on it to the next session of the Committee on Invisibles and Financing related to Trade.

- (d) Supplementary Financial Measures (TD/II/RES/30 (Annex 7)). This was one of the controversial subjects in Committee III. While most of the less developed countries, led by Ceylon and India, and some representatives of the industrialized countries (the Netherlands and the Scandinavian countries) approved the Bank staff scheme, the large donors - France, Germany, Japan, the United Kingdom and the United States - expressed either reservations or opposition. The resolution, after expressing appreciation for the Bank staff report and reaffirming the objectives of the recommendation on this matter adopted at UNCTAD I, says "that further work is required to resolve some outstanding issues. The principal issues are:
- (i) The definition and method of assessment of reasonable expectations;
 - (ii) The scope, nature and acceptability of the understandings between the administering agency and individual participant countries on their development programmes and the policies to be adopted in order to carry them out;
 - (iii) The measures to be taken by countries applying for assistance;
 - (iv) The relationship between supplementary finance and the IMF Compensatory Financing Facility."

The resolution provides that in the consideration of these issues, due attention should be given not only to the Bank staff scheme, but also to other proposals having the same objective, with the aim of working out the most effective measures possible.

To this end, the Conference decided to continue in existence the Intergovernmental Group on Supplementary Financing, suitably expanded, and it instructed the Group to work out measures for supplementary financing. Not later than 1969, the Group is to report to the Trade and Development Board, which is directed to "take early action on the findings of the Intergovernmental Group, taking account of any proposals for action in the field of inter-

national commodity policy which may be submitted to the Boards of Governors of the IBRD and the IMF" pursuant to the Rio resolutions.

- (e) Compensatory Financing Facility (TD/II/RES/31 (Annex 8.)). The resolution, after commenting favorably on the measures taken by the IMF to liberalize its compensatory financing scheme, calls attention to a number of suggestions concerning the Facility made in the discussions and refers them to the Fund for consideration in its continuing review of the Facility.
- (f) The resolution on the International Monetary System (TD/II/RES/32 (Annex 9)) states that "the developing countries stress the importance of the early activation" of the SDR scheme and urge members of the IMF "to consider at an early date the establishment" of a link "between the creation of SDR's and the provision of external development finance."
- (g) Increase of the Flow of Private Capital to Developing Countries (TD/II/RES/33 (Annex 10)). This resolution recognizes the importance of private foreign investment for developing countries and asks the Secretary-General of the U.N. to undertake a study of the economic effects of foreign investment. It suggests the possibility that a group of governmental experts might be appointed to examine issues raised by various U.N. studies on private investment in developing countries. Finally it expresses the hope that progress on the Bank's multilateral investment insurance study can be expedited, and asks the Secretary-General of UNCTAD to invite the IBRD to submit a progress report and any other relevant material which the Bank considers it appropriate to release to the next session of the Committee on Invisibles and Financing related to Trade.

These seven resolutions far from cover all the subjects on the agenda of Committee III. As agreement could not be reached on the other items, the Conference transmitted them to the "continuing machinery of UNCTAD."

Two draft resolutions concerning the future role of the Bank Group were discussed by the Plenary, but not adopted. They were transmitted to the continuing machinery for further consideration.

One, on World Bank Group Matters (TD/L.37, Annex VIII, p.55, Annex 11), was submitted by the Chairman of Committee III. After recognizing the contribution of the Bank Group to the developing countries and noting that it has continuously adjusted its activities to the needs of those countries, the draft resolution urges the Group's member governments to continue their support of the institutions. It recommends that those governments advise their representatives in the competent organs of the Bank Group to consider

the following, bearing in mind the need to safeguard the Bank's ability to borrow: that

- (a) the Bank Group should devote as large a part as possible of its resources for assistance to developing countries;
- (b) the Bank Group should be alert to the necessity for new approaches in its lending policies and procedures, for example in keeping under review the advisability of financing non-private and semi-public productive enterprises and the possibility of extending IDA financing to projects and programs designed to correct regional imbalances in the developing countries;
- (c) the Bank Group should continue, in appropriate cases, to extend loans for purposes wider than the financing of individual projects and that it should consider, wherever necessary, the financing of local costs;
- (d) the Bank Group should continue cooperating with regional financial institutions both in coordinating their operations and, where appropriate, in financing jointly projects of regional importance;
- (e) the Bank Group should continue and, to the extent feasible, increase its operations relating to rural and urban development (including public sanitation and water supply), education, agriculture and projects designed to foster economic integration;
- (f) the Bank Group should extend, to the extent feasible, its coordinating services relating to particular countries, such as consultative groups;
- (g) at the request of the parties involved, the Bank Group should cooperate in the consideration of measures to deal with external debt problems;
- (h) the Bank should keep under review the possibility of exercising its power to guarantee loans to developing countries;
- (i) IFC's activities should be expanded, in particular with regard to undertakings in developing countries and especially to projects which promote economic integration;
- (j) IDA should explore the possibility of receiving and administering trust funds from various governments and institutions;

- (k) IDA should give particular attention to the least developed among the developing countries, in particular to those which have not yet received adequate international aid.

The second draft resolution, Extension of the Operations of the World Bank and Its Affiliates (TD/L.37, Annex VIII, p.47, Annex 12) was submitted by the "77." It recommends that the member governments of the Bank Group should, at the next Annual Meeting, ask the Bank to study the transformation and adaptation of the activities of the Group to enable it to devote itself entirely to aid to the developing countries, and that to this end the necessary policy reforms should be introduced, with particular reference to the following: that

- (a) the Bank should consider the possibility of financing plans and programs, including local costs, instead of financing only projects as has been its traditional policy;
- (b) loan periods should be longer and interest rates easier;
- (c) the Bank should enter into negotiations with the debtor developed countries to examine the possibility of pre-payment of their debt balances;
- (d) the Bank should increase aid to countries without direct access to international capital markets and to those developing countries which do not yet have adequate international aid;
- (e) the Bank should lend to non-private and mixed industrial enterprises, especially those working in strategic areas of development;
- (f) the Bank should finance public health projects and broaden its operations relating to rural and urban development, education, agriculture and economic integration;
- (g) the Bank should agree to administer trust funds provided by governments and institutions, preferably of an untied nature;
- (h) the Bank should exercise its powers to guarantee loans to developing countries from capital-exporting countries and to borrow in both international and national markets;
- (i) the Bank should increase its cooperation with regional financing institutions;
- (j) the Bank should extend and broaden its consortium and consultative group services;

- (k) the Bank should cooperate with countries, at their request, in negotiations with creditor countries for the consolidation, conversion and renegotiation of their external debts;
- (l) IFC operations should be expanded;
- (m) the Bank should vigorously pursue negotiations with the developed countries for additional IDA resources;
- (n) IDA should broaden its lending policies to permit credits for projects and programs designed to correct regional imbalances in the developing countries;
- (o) IDA should give attention to the least developed among the developing countries.

The draft also recommends to the Bank's Board of Governors that the terms and conditions of development loans should be adapted to the particular needs of the least developed countries.

Committee IV. This Committee, which dealt with invisibles, including shipping, insurance and tourism, was the most successful: it completed its agenda, postponed nothing, and took ten decisions, only one of which required voting.

Agreement was reached on the establishment of consultative machinery between liner conferences and shippers' councils in the developing countries. Several recommendations were addressed to maritime nations on freight rates and conference practices. The Secretariat of UNCTAD was asked to assess the impact of the terms of shipping on the trade of less developed countries. It was recommended that the developed countries, directly or through international and regional financial institutions, give favorable consideration to requests from developing countries for assistance in developing and modernizing ports and related inland transportation facilities.

UNCTAD recommended that facilities for insurance and reinsurance be provided to the less developed countries at the lowest cost commensurate with the risks involved. It also asked the developed countries to help the developing ones in encouraging and strengthening their national insurance and reinsurance markets, conducting research into insurance problems and training insurance personnel.

Another resolution welcomes the growing interest of specialized agencies in the role of tourism in the economies of developing countries, urges recognition of tourism as a development industry and invites all institutions concerned to take urgent coordinated action to promote tourism.

Committee V. This Committee dealt primarily with problems relating to trade and relations between the developing countries and the socialist countries of Eastern Europe. Only one resolution was adopted (TD/II/RES/15 (Annex 13)) on East-West and "East-South" trade. In future, East-West trade will be discussed not only in the Economic Commission for Europe but also in UNCTAD which will consider it in consultation with the U.N. Regional Commissions.

Working Groups

The Conference established three Working Groups to deal with special problems:

Working Group I considered (i) the world food problem and its relationship to international trade, and (ii) transfer of technology, including know-how and patents.

On the world food problem, a declaration was adopted (TD/II/RES/9 (Annex 14)) with one negative vote (Cuba). The developed nations are urged to strengthen their aid to countries making efforts to modernize their agriculture. The international organizations concerned are asked to take into account the need for a coordinated global approach to the world food problem.

No agreement was reached on the transfer of technology, and a draft resolution was referred to the Trade and Development Board for further consideration. It proposes that the Board, after obtaining the views of the Economic and Social Council, should consider the establishment of an Intergovernmental Committee to examine the question of transfers of technology to the less developed world. There is opposition to the creation of this Committee on the ground that it would overlap with the existing Advisory Committee on the Application of Science and Technology to Development, an organ of ECOSOC.

Working Group II was established to deal with problems of economic integration among developing countries. In the course of the debates emphasis was put on the need for special support by the international community to help the less developed countries expand trade with each other and achieve integration.

This working group also discussed special measures to be taken in favor of the least developed countries (a new category which made its appearance in the course of UNCTAD II). It recommended (TD/II/RES/24 (Annex 15)) that special measures be devised for these countries, so that all developing countries may realize comparable results from the cooperation of UNCTAD members. The Secretary-General of UNCTAD was asked to undertake certain studies in this connection, and other U.N. bodies and international institutions were invited to cooperate.

Working Group III dealt with subjects of concern to land-locked countries. TD/II/RES/11 (Annex 16) sets up an expert group to study, in particular, the transport problems of these countries. International institutions are requested to help develop their transport and communication facilities.

* * * *

Other resolutions of some interest to the Bank, and available in Room 839, (extension 3642), deal with the following: training of technical and special staff in the field of export promotion (TD/II/RES/1); mobilization of public opinion in support of UNCTAD objectives (TD/II/RES/10); preparation of an outline for a study of restrictive business practices of private enterprises in developed countries (adopted over the opposition of the OECD countries) (TD/II/RES/25); recommendation that the General Assembly suspend South Africa's UNCTAD membership pending termination of its policy of racial discrimination (adopted by a vote of 49 in favor, 18 opposed, 7 abstentions) (TD/II/RES/26).

More than 30 proposals were submitted to the "continuing machinery" of the Conference. They include two draft resolutions submitted by India and Chile, and by Sweden, on the streamlining of the UNCTAD machinery. It was a widely held view among the delegations that the Conference's failure to produce more positive results was due not only to its size, but also to the fact that it had turned into a negotiating meeting rather than being a meeting primarily to ratify prior understandings. Efforts will therefore be made to ensure that, in the future, complicated international negotiations will not be undertaken at the Conference itself but instead at prior well-organized and smaller ad hoc meetings. In addition, an attempt will be made to have at least one annual session of the Trade and Development Board at the level of politically responsible ministers.

Concluding Comments

UNCTAD was created in 1964 as a continuing institution of the United Nations to assist the developing nations in handling their problems relating to "trade and aid." It is primarily a forum of and for the developing world. It is still a young organization, and its ways and procedures are far from being well-worked out. It has had very difficult going in its short existence. While UNCTAD I had a relatively easy task - to identify the principal problems and to arrange for their study by experts - the task of UNCTAD II was much more complicated. It was expected to find answers to three formidable questions: how to assure a more stable income to producers of primary products; whether an acceptable formula for extending preferences for exports from developing countries could be devised; and how development aid could be increased. Moreover, UNCTAD II was asked to deal with these issues at a time when other urgent problems, including the reform of the world monetary system and the balance of payments difficulties of the United Kingdom and the United States, were occupying the attention of many of the developed countries.

Almost all of the questions raised at UNCTAD II remain unanswered, and by that yardstick the Conference was unsuccessful. Among the developing countries, there was a pervasive sense of deep disappointment with the results. Nonetheless, some of the resolutions may ultimately lead to constructive action, particularly the resolutions continuing negotiations for the establishment of a general non-discriminatory, non-reciprocal preference scheme in favor of the developing countries, and providing for further efforts to reach agreement on an acceptable scheme for supplementary finance. The new aid target agreed upon at UNCTAD II, although without date, may also eventually influence the volume of external capital flows to the developing countries.

Particularly to be noted is the fact that the developing countries refrained from making use of their majority voting power to push through resolutions on economic matters which were unacceptable to the developed countries. This leaves the door open for further discussions between the two groups, within the UNCTAD machinery, with the object of arriving at agreed positions on these matters. If, as a result of the experience at UNCTAD II, the UNCTAD machinery should be reorganized, UNCTAD may yet prove to be a useful forum for cooperation between the industrialized and the less developed nations.

Attachments

Development Services Department
May 10, 1968



United Nations Conference on Trade and Development

Distr.
GENERAL
TD/II/RES/19
28 March 1968

Agenda item 10

RESOLUTION ADOPTED BY THE CONFERENCE

19(II). Studies by international financial institutions on
stabilization of commodity prices

The United Nations Conference on Trade and Development,

Reaffirming the importance and urgency of so conducting commodity trade as to make available to the developing countries external resources of which they stand in grave need,

Noting the resolution on commodity price stabilization adopted by the Board of Governors of the International Bank for Reconstruction and Development (IBRD) and of the International Monetary Fund (IMF) at the Rio de Janeiro session in September 1967, requesting a study of the conditions in which IMF, IBRD and the International Development Association (IDA) could participate in introducing suitable machinery comprising commitments balanced as between producer and consumer countries and allocate the necessary funds thereto,

1. Emphasizes the importance of the role of IMF, IBRD and IDA in helping to solve the financial and development problems arising in world commodity trade;
2. Calls the attention of these agencies to the importance it attaches to the study requested of them in the above-mentioned resolution;
3. Expresses the hope that this study will contribute to the solution of commodity problems;
4. Further expresses the hope that these agencies, in preparing the study, will concentrate, inter alia, on the problems of financing buffer stocks and diversification;
5. Requests these agencies to transmit the study to UNCTAD, in view of the latter's responsibility, as defined in General Assembly resolution 1995 (XIX) of 30 December 1964, for the framing and implementation of an international policy on commodities.

77th Plenary meeting
26th March 1968



United Nations Conference on Trade and Development

Agenda item 10

RESOLUTION ADOPTED BY THE CONFERENCE

16(II). International action on commodities

A. Cocoa

The United Nations Conference on Trade and Development,

Recommends that the United Nations Cocoa Conference should be reconvened immediately after the present session of the Conference and, if necessary, be preceded by consultations so as to ensure its success. In any case, the Cocoa Conference should be convened not later than the end of June and preferably before the end of May.

B. Sugar

The United Nations Conference on Trade and Development.

Noting the reconvening of the United Nations Sugar Conference on 17 April 1968,
Invites the Secretary-General of UNCTAD and Governments concerned to take all necessary steps to ensure its success with the objective of bringing into operation an international agreement by 1 January 1969.

C. Oilseeds, oils and fats

The United Nations Conference on Trade and Development,

1. Invites the Secretariats of UNCTAD and of the Food and Agricultural Organization of the United Nations (FAO) to pursue jointly and urgently the study of possible solutions to the problems involved in the trade of oilseeds, oils and fats and specifically of those solutions mentioned in paragraph 19 of the report of the Third Session of the Study Group on Oilseeds, Oils and Fats, and that these studies be completed before the end of October 1968;
2. Recommends that, in the light of the studies suggested in paragraph 1 above, the Secretary-General of UNCTAD and the Director-General of FAO, in consultation with interested Governments, consider the necessity to set up, at the earliest possible date but not later than the end of 1968, an Inter-Governmental Consultative Committee on Oilseeds, Oils and Fats to be entrusted with:
 - (a) suggesting short-term measures to improve the market situation of oilseeds, oils and fats;
 - (b) examining the results of the studies referred to in paragraph 1 above,

- (c) submitting practical proposals on long-term measures for inter-governmental arrangements in this field as soon as possible;
3. Stresses the importance of the active participation in these meetings by all countries members of FAO or UNCTAD having an interest in the production of oilseeds, oils and fats and in the international trade in these commodities.

D. Natural rubber.

The United Nations Conference on Trade and Development,

1. Unanimously adopts the report of the UNCTAD Exploratory Meeting on Rubber (TD/39) and endorses the conclusions set out in paragraphs 23 and 24 of that report;
2. Requests the International Rubber Study Group and its Natural and Synthetic Rubber Producers' Consultative Committee to keep a continuing watch on the natural and synthetic rubber situation and the extent to which the remedial measures set out in paragraphs 23 and 24 of the above mentioned report (TD/39) are effective, to formulate such further measures as they may judge appropriate and to report periodically to the appropriate bodies of UNCTAD;
3. Charges the Permanent Group on Synthetics and Substitutes, in co-operation with the International Rubber Study Group and, as appropriate, other associated agencies concerned with rubber, with the task of:
 - (a) hastening the implementation of the measures referred to in paragraphs 23 and 24 of the report of the UNCTAD Exploratory Meeting in Rubber (TD/39),
 - (b) periodically reviewing the progress of implementation of the measures mentioned in sub-paragraph (a) above,
 - (c) ascertaining if the remedial measures instituted are effective,
 - (d) considering measures formulated under paragraph 1 above and such other measures for implementation as it may judge appropriate from time to time and
 - (e) in general keeping a watch on the natural rubber and synthetic rubber situation;
4. Further requests the Committee on Commodities to review periodically the progress of implementation of these measures and to report to the Trade and Development Board, the first of such reviews to be undertaken at the next session of the Committee on Commodities.

E. Hard fibres

The United Nations Conference on Trade and Development,

Noting

- (i) the conclusion of the informal understanding on sisal and henequen reached between the major producing and consuming countries on an indicative price range and export quotas, at the last session of the Consultative Sub-Committee of the Study Group on Hard Fibres,
- (ii) the conclusion of the informal understanding on abaca reached between the major producing and consuming countries on an indicative price range, at the last session of the Consultative Sub-Committee on Hard Fibres, and

Recognizing the value to both producers and consumers of stabilizing at remunerative and equitable price levels the markets for these commodities in the long-term,

1. Requests the Secretary-General of UNCTAD, in consultation with the Director-General of FAO and the Governments of the member States concerned, to follow closely and evaluate the operations of the informal understandings referred to above with regard to achieving stabilization at remunerative and equitable price levels of the markets of these commodities;

2. Further requests the Secretary-General of UNCTAD, in consultation with the Director-General of FAO and the Governments concerned, to consider further steps for achieving the above objectives, including the possibility of a formal agreement;

3. Urges that Governments, in any measures they take, give due consideration to the efforts of producers of sisal, henequen and abaca to improve market conditions through current informal arrangements particularly in defending the indicative price ranges for these commodities as agreed upon during the session.

F. Jute

The United Nations Conference on Trade and Development,

Noting the conclusion of an informal arrangement on jute,

1. Considers that the arrangement should be continued and strengthened;
2. Also considers that effective international action is necessary for the stabilization of the price of jute in the world market;
3. Recommends that the Study Group on Jute and Allied Fibres should, in consultation with the UNCTAD secretariat, urgently explore the possibility of setting up an appropriate buffer stock scheme for this commodity, as suggested in paragraph 24 of its Consultative Committee's report (CCP/JU.68/9), and keep the Committee on Commodities informed of the progress made.

G. Other commodities

The United Nations Conference on Trade and Development,

Noting the activities of the Study Groups on bananas and citrus fruit and of the commodity bodies concerned with cotton and tungsten and the ad hoc meetings on tea and the decision to convene shortly an ad hoc meeting on wine,

Also noting that in the case of iron ore, tobacco, manganese ore, mica, pepper, shellac and phosphates, no study groups or ad hoc meetings have so far been arranged,

Recognizing that all the commodities mentioned above require prompt consideration as a basis for appropriate action and that to this effect inter-governmental consultations might appear necessary, in accordance with the following procedures, in order:

- (i) to identify the problems faced by the commodity,
- (ii) to determine the techniques appropriate for dealing with them,
- (iii) to agree on appropriate remedial measures,

1. Requests the ad hoc meetings and commodity bodies mentioned above to examine the commodity concerned on the lines indicated above in close co-operation with the Secretary-General of UNCTAD at their next meeting;

2. Further requests these bodies to transmit the results to the Committee on Commodities of UNCTAD for consideration and review;

3. Invites the Secretary-General of UNCTAD, taking into account the views of the commodity group concerned and after consulting with the interested member Governments to arrange for inter-governmental consultations;

4. Also requests the Secretary-General of UNCTAD, in the case of those commodities not covered by international bodies, to make such studies as may be appropriate in co-operation with the competent international institutions and to arrange, after consulting with the interested member Governments, the inter-governmental consultations he may consider necessary to examine these commodities on the lines indicated above;

5. Agrees that, as far as practicable, these studies should be made and these consultations should be held concurrently for all the commodities and not on a commodity-after-commodity basis and that they should aim at achieving practical results by the end of 1969;

6. Further requests the Secretary-General of UNCTAD to report periodically on these studies or consultations to the Committee on Commodities and to the Trade and Development Board.

- At the request of interested Governments, the Secretary-General of UNCTAD should initiate appropriate action on the lines set out in the preceding paragraph for such commodities as may be included in the list from time to time with an appropriate time schedule for each commodity.

- For products of the temperate zone produced by developing countries and not specifically mentioned in the preceding paragraphs, the Secretary-General of UNCTAD should continue to exchange information with GATT, FAO and other international agencies in conformity with General Assembly resolution 1995 (XIX) of 30 December 1964 with the objective of making a comprehensive and continuing evaluation of the problems and of measures to be adopted for their solution, and should report periodically to the Trade and Development Board.

77th plenary meeting
26 March 1968



Dir. of
Gen. Sec.
TD/II/CONF/21
28 March 1968

United Nations Conference on Trade and Development

Agenda item 11(b)

RESOLUTION ADOPTED BY THE CONFERENCE

21(II) Preferential or free entry of exports of manufactures and semi-manufactures of developing countries to the developed countries

The United Nations Conference on Trade and Development,

Having examined the problems relating to the application of a generalized non-reciprocal, non-discriminatory system of preferences in favour of the developing countries,

Having taken cognizance of the Charter of Algiers (TD/38), the report of the Special Group of the Organization for Economic Co-operation and Development (OECD) (TD/56) and document TD/II/C.2/L.5 of the Group of 77,

Recognizing the progress achieved since the first session of the Conference as reflected in the OECD report which involves a major change in commercial policies as between developed market-economy countries and the developing countries,

Recognizing the unanimous agreement in favour of the early establishment of a mutually acceptable system of generalized non-reciprocal and non-discriminatory preferences which would be beneficial to the developing countries,

Considering that it was not possible to achieve sufficient progress in respect to some key questions related to this problem,

Convinced of the need for further intensive work so as to elaborate such a system,

1. Agrees that the objectives of the generalized non-reciprocal, non-discriminatory system of preferences in favour of the developing countries, including special measures in favour of the least advanced among the developing countries, should be:

- (a) to increase their export earnings;
- (b) to promote their industrialization;
- (c) to accelerate their rates of economic growth;

2. Establishes, to this end, a Special Committee on Preferences, as a subsidiary organ of the Trade and Development Board, to enable all the countries concerned to participate in the necessary consultations. Any member country which is unable to participate in the Special Committee may make its views known to the Secretary-General of UNCTAD who will bring them to the attention of the Special Committee;
3. Decides that, for the purpose of the action to be taken in accordance with paragraph 2 above, due account should be taken of the agreements and comments contained in the report of the Second Committee (TD/88 and Corr. 1 to 3);
4. Requests that the first meeting of the Special Committee be held in November 1968 to consider the progress made by that time, and further requests that a second meeting be held in the first half of 1969 so that the Committee can draw up its final report to the Board; the aim should be to settle the details of the arrangements in the course of 1969 with a view to seeking legislative authority and the required waiver in GATT as soon as possible thereafter;
5. Notes the hope expressed by many countries that the arrangements should enter into effect in early 1970.

77th plenary meeting

26 March 1968



ANNEX 4

Distr.
GENERAL

TD/II/RBS/27
29 March 1968

United Nations Conference on Trade and Development

Second session
Agenda item 12

DECISION TAKEN BY THE CONFERENCE

27(II). Aid volume target

1. The Conference agrees that economic development entails mutually reinforcing efforts by developing and developed countries. It is appreciated that developing countries must and do bear the main burden for financing their own development. The developed countries, for their part, recognise their responsibility to provide increased resources to developing countries. The Conference stresses that, in view of the crucial role of external resources in helping to mobilize the domestic resources of developing countries, the efforts of developed countries in support of development should be further intensified.
2. The Conference accordingly recommends that each economically advanced country should endeavour to provide annually to developing countries financial resource transfers of a minimum net amount^{1/} of 1 per cent of its GNP at market prices in terms of actual disbursements, having regard to the special position of those countries which are net importers of capital.
3. The Conference recognises that the target should be regarded as an incentive to greater efforts to provide resources rather than as a ceiling or a suitable method for comparing the appropriate quantitative or qualitative development assistance efforts as between different economically advanced countries.

1/ Net financial resource transfers are defined as follows:

(i) official cash grants and grants in kind including grants for technical assistance but excluding grants for defence purposes; sales of commodities against local currencies exclusive of utilisation of such currencies by the donor country for its own purposes; government lending for periods exceeding one year net of repayments of principal; grants and capital subscriptions to multilateral aid agencies, and net purchases of bonds, loans and participation from those agencies.

(ii) private capital on the basis of net long-term movements originating with residents of the capital exporting countries; they are thus net of repatriation of principal, disinvestment and retirement of long-term loans, portfolio assets and commercial debt. They are not net of reverse flows of capital originating with residents of less-developed countries, nor of investment income.

4. Some economically advanced countries have already met the target as defined above. They are prepared to endeavour to ensure that their net financial resource transfers are maintained and to envisage, if possible, an increase in them.
5. Several developed countries expressed the view that their progress towards the target is affected by their relative aid-giving capacity, and may, from time to time, be affected by certain temporary difficulties.
6. In the view of developing countries and some donor countries this target should be achieved by 1972; some other donor countries stated that they were prepared to meet this target either by this date or at the latest by 1975; all the other donor countries do not feel able to accept a precise date.
7. The Conference recognises that official bilateral and multilateral flows are clearly required to meet many of the basic needs of developing countries. It is generally accepted that the resources which individual donor countries can provide differ widely in composition in view of the differences in their economic structure. The Conference recognises, moreover, that private funds have their role to play, and in order to meet the increasing needs of developing countries, these as well as official flows should be promoted. A number of developed countries stated that within the one per cent target defined above, they were prepared to attempt to provide a minimum of 0.75 per cent of its GNP by way of net official financial resource transfers.^{2/} One developed country expressed the view that this proportion should be at least half of the one per cent target. The other developed countries, even though they are not prepared to accept any precise ratio, believe that endeavours should be made to ensure that official bilateral and multilateral flows represent a substantial part of the totality of financial resources provided.
8. Annual progress reports in an appropriate form should be submitted and reviewed in terms of General Assembly resolution 1995 (XIX) and Trade and Development Board resolution 19(II).

^{2/} Net official financial resource transfers are defined in paragraph (i) of foot note 1/.



ANNEX 5

Distr.
GENERAL

TD/II/RES/28
29 March 1968

United Nations Conference on Trade and Development

Second session

Agenda item 12

DECISION TAKEN BY THE CONFERENCE

28(II). Improving the mobilization of internal resources

1. The Conference recognizes that the primary responsibility for their development rests with the developing countries themselves. While appreciating the efforts already made by the developing countries to mobilize and make effective use of their internal resources, the Conference considers that further efforts in this regard are essential for accelerating economic development in the developing countries. These efforts are also important for mobilizing public opinion in developed countries in support of their assistance programmes.
2. In the interests of rapid development, developing countries need both to mobilize internal resources as fully as possible and to ensure effective use of available resources both internal and external. The Conference notes with satisfaction the continuing progress being made in development planning and the increasing recognition that effective implementation is an essential part of the planning process. Implementation involves a broad range of economic and social policies conducive to development. It also depends on the creation of the necessary institutions and on mobilization of public support and co-operation in developing countries.
3. The Conference recognizes that external resources can help to make possible full deployment of the resources and efforts of developing countries, and at the same time that well directed efforts by the developing countries are necessary in order for external resources to make their full contribution to development.
4. Countries which provide external resources in support of development are concerned that these resources should not replace but supplement and help to mobilize adequate domestic efforts and should be effectively used. The Conference acknowledges, however, that priorities, problems and possibilities differ between developing countries, and that the standards of effort which it is reasonable to expect depend on the circumstances of individual developing countries.
5. With these considerations in mind, the Conference stresses the importance of continuing frank and constructive exchanges between providers and recipients of external resources. The Conference notes with interest and the experience gained in consortia

and consultative groups, and also the establishment of certain mechanisms for mutual review and exchange of experience among developing countries. It recommends that attention should be given to the further development and extension of such arrangements.

6. The UNCTAD secretariat should continue its work on the relations between the rate of growth and the amount of aid received. Its studies should take account of alternative development targets, policies and standards of effort and external circumstances. They should seek to investigate any relevant implications of factors which may lead to limitation of absorptive capacity and evaluate the effects of alternative types of performance including the possibilities for useful import substitution.



TD/II/CONF/29
29 March 1966

United Nations Conference on Trade and Development

Agenda item 12

DECISION TAKEN BY THE CONFERENCE

29(II). Improving the terms and conditions of aid alleviating the problems of external indebtedness

Terms of aid

1. The Conference endorses the view expressed in the Agreed Statement of the Problems of Development that the terms of development assistance generally remain too hard. Further efforts are required to soften the terms of aid and to harmonize the terms given by individual developed countries to individual developing countries. Developed countries agree to renew their efforts to achieve by the end of 1968 the terms and conditions of external resources laid down by the Development Assistance Committee (DAC) of the OECD in its resolution of July 1965, and by the General Assembly of the United Nations in its resolution 2170 (XXI). The Conference urges those countries which are now furthest from these norms to make special efforts to achieve them.

2. The Conference notes with appreciation that a review of the terms and conditions specified in the Recommendations of the DAC is to be undertaken this year and expresses the hope that it will result in further liberalization of them. It considers that efforts should be made to raise the norms set out in the present target, either by increasing the amount of aid given in the form of grants, or by improving interest rates, maturities or grace periods, or by increasing the grant element of the official aid commitments of donor countries. Developing countries and some developed countries consider that either of the following alternative norms, to be achieved by the end of 1970, should be specified for each donor country.

Either

(a) developed countries might provide 80 per cent or more of their official aid in the form of grants;

Or

(b) they might;

(i) provide 90 per cent of their official aid commitments as grants or loans at 2.5 per cent or less, with a repayment period of 30 years or more;

(ii) attain a minimum grace period of 8 years.

The developed countries generally take note of these suggestions and will consider them in the evolution of their assistance policies.

3. The Conference recognizes that the ability of individual countries to service external debt varies. It recognizes also that the terms on which different types of funds are obtainable to promote development vary. It considers, however, that most developing countries will need to receive development assistance on soft terms for a long time ahead whether the judgment is based on their national income per head or their external financial position and prospects. The developing countries and some developed countries consider that, by 1975, the bulk of bilateral lending should be on terms comparable in general effect though not necessarily identical in all individual respects with the terms currently applied by the IDA, with suitable arrangements made to enable developing countries not now eligible to avail themselves of these terms to do so. The developed countries generally take note of these suggestions and agree to consider them in the further evolution of their lending policies.

4. The Conference stresses the importance of harmonizing the terms of assistance to individual countries, particularly but not exclusively in the case of countries for which multilateral-co-ordinating arrangements exist. Further study should be given to the determinants of debt servicing capacity, with a view to establishing general criteria for settling terms for countries or groups of countries. Judgments on the terms to be offered should be made, where possible, on a case by case basis. Particular regard should be paid to the needs of the least-developed countries in determining terms. Some donor countries emphasize that the overall terms of aid of individual donors should be taken into account in this connexion.

5. Some donor countries point out that for them the volume of lending and the rate at which terms can be improved are closely connected, especially if the donor country has to provide at least part of its aid by raising funds in the private capital market, and to subsidize the rates at which they are relent to developing countries. They also point out that the problem is particularly acute in view of their relatively limited aid giving capacity.

6. The Conference considers that further study is necessary of possible improvements in techniques of lending, having to do among other things with conditions and schedules of repayments, and requests the IBRD to prepare such a study in consultation with the Secretary-General of UNCTAD and IMF. In particular the study should take into account the possibility of postponing or waiving interest and amortization payments in years of foreign exchange stringency. The results of this study should be presented to the next session of the Committee on Invisibles and Financing related to Trade.

7. The Conference welcomes the increased availability of financial assistance for programme financing and stresses that external finance should be made available both for programmes and projects and should include local costs where necessary. Since development requires a continuous supply of external resources, individual donor countries should take such steps as they can to ensure such continuity.

Commercial credits including suppliers' credits

8. The Conference endorses the judgment in the Agreed Statement that commercial credits add to the flow of resources and can play a useful role, within limits, in promoting development. They are, however, no real substitute for long-term development aid.

9. It was noted in the Agreed Statement that four main questions arise:

- (i) to what extent should commercial credits be adapted to promote development as well as trade?
- (ii) how should its acceptance and use be controlled by both recipients and lenders?
- (iii) should the terms be softened, and what would be the implications for both aid and trade?
- (iv) should the question whether any new institutional arrangements are needed to alleviate harmful developments in the field of commercial credits be further studied?

10. The Conference invites the IMF to prepare a study on these questions, in consultation with member Governments, with the secretariat of the UNCTAD, the IBRD and other appropriate institutions. This study should be made available for discussion in the Committee on Invisibles and Financing related to Trade which will then decide whether to refer it to an intergovernmental group with equitable representation of developing and developed countries, or to deal with it in some other appropriate way.

11. The Conference further requests the United Nations Secretariat and the IBRD to continue, in consultation with other institutions, the study of commercial credit as a means of assisting developing countries to increase their exports and to finance trade with each other including ways in which facilities available to them might be strengthened and developed. Consideration should be given to the possibility of refinancing by international financial institutions of commercial credit extended by developing countries.

Indebtedness

12. The Conference recognizes the gravity of the problems of external indebtedness and acuteness of some of them, and the fact that such problems arise not only from official lending but also from commercial credit. It considers, first, that as was noted in the Agreed Statement, further analysis is required of the whole question of indebtedness differentiating between the various types of debt involved. These must not be judged in isolation but in relation to the debt-servicing capacity of the country concerned, its external trade and its rate of growth. The problem of indebtedness is also linked with the problems of terms and volume of aid.

13. Secondly, improved arrangements to forecast and forestall debt crises are clearly desirable.

14. Thirdly, since the first objective must be to prevent debt crises from arising, developing countries should undertake sound policies of debt management, while developed countries should help by providing assistance on appropriate terms and conditions.

15. Finally, where difficulties do arise, countries concerned should stand ready to deal reasonably with them within the framework of an appropriate forum, in co-operation with the international institutions concerned. They should bear in mind that some developing countries are carrying an excessively heavy burden of long term debt, having regard to their need to sustain an adequate rate of economic growth and that suitable measures should be adopted in appropriate cases to alleviate this burden. In other cases, situations of crisis may arise and arrangements to refinance or reschedule on appropriate terms and conditions may be required. Present institutional arrangements for dealing with such problems may require review when the analysis of the problems has proceeded further and the arrangements for forecasting situations have been further developed.

Tied aid

16. The Conference, while recognizing that the causes and effects of tied aid need to be further studied, endorses the judgment on the effects of tying contained in the Agreed Statement. Tying restricts the developing countries' opportunities of benefiting from the price and quality advantages which normally accrue from a free choice of suppliers. This is particularly the case when restrictions are imposed not only as to the source of procurement of the goods but also as to the nature of the goods. Further tying tends to reduce the real value of aid inasmuch as the definition

and the choice of projects and of technology best suited to the requirements of the developing countries is limited. Some of these disadvantages may be mitigated if a country has the freedom of recourse to several sources of procurement or to a broad range of goods and services from one source. Furthermore, some tied loans are used for reimbursing import payments relating to contracts which have been obtained in open international competition.

17. The Conference therefore considers that, in principle, financial assistance should be untied. Many donors, however, find it necessary to tie their aid, mainly in order to protect their balance of payments or to secure public support for their aid programmes. The tying of aid is therefore directly related to the level of aid.

18. The Conference urges the developed countries to take what practical measures they can, individually or collectively, both to reduce the extent of tying and to mitigate any harmful effects. The Conference considers that in any case efforts should be made to mitigate harmful effects of tying. Practical steps might include:

- (i) A greater provision for the use of aid funds to cover local costs;
- (ii) the allowing of procurement in developing countries;
- (iii) a broadening of the range of commodities or services to which aid may be devoted so that recipients have reasonable freedom of choice;
- (iv) improvement in the administration of procurement;
- (v) a development of pooling systems under which contracts might be decided by international competitive bidding within a group of donor countries.

19. Developing countries also consider that double tying, that is, tying to sources of procurement as well as to specified products, should be eliminated except in the case of project assistance, and that donors should subsidize the excess cost of procurement resulting from tying practices. Developed countries are unable to accept the second suggestion and are not unanimously able to accept the first.

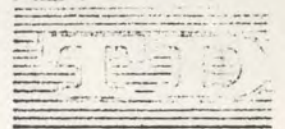
Access to capital markets

20. The Conference notes the concern felt by the developing countries over the question of access to capital markets by themselves and by multilateral development institutions, and invites the Secretary-General of the UNCTAD to seek the advice of the IBRD and the regional development banks with a view to its discussion by the Committee on Invisibles and Financing related to Trade.

Interest equalization

21. The Conference notes the studies prepared by the Secretariat on the proposal for a multilateral interest equalization fund to cover the interest margin between loans obtained on international capital markets and concessional development loans. It notes, further, that the technique of subsidizing the rates at which funds raised on the private capital market are relent as aid is already practised by a number of donors. It commends the technique to those who find it an appropriate means of achieving appropriately soft terms. The proposal for a multilateral scheme raises a number of problems. The Conference invites the Secretary-General of UNCTAD to keep the matter under review and to report to the next session of the Committee on Invisibles and Financing related to Trade.

22. Annual progress reports in an appropriate form should be submitted and reviewed in terms of General Assembly resolution 1995 (XIX) and Trade and Development Board resolution 19 (II).



ANNEX 7

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GENERAL

TD/II/RES/30
29 March 1968

United Nations Conference on Trade and Development

ANNEX VII

Agenda item 12

UNCTAD IV

DECISION TAKEN BY THE CONFERENCE

30 (II). Supplementary financial measures

1. The Conference reaffirms the objective of the proposal for Supplementary Financial Measures set out in Annex A.IV.18 to the Final Act of the first Conference. This states that "the new scheme should aim to deal with problems arising from adverse movement in export proceeds which prove to be of a nature or duration which cannot adequately be dealt with by short-term balance of payments support. Its purpose should be to provide longer term assistance to developing countries which would help them to avoid disruption of their development programmes."
2. Any measures devised to meet this need should, on the basis of appropriate criteria, which should, to the extent possible, be objective, provide reasonable assurance of help to protect a country's development plan or programme against the effects of export shortfalls, to the extent that they cannot be met by short-term balance of payments support.
3. The Conference expresses its appreciation of the report prepared by the staff of the IBRD, and of the reports of the Intergovernmental Group on Supplementary Financing. These reports have defined the issues involved and clarified many of them. The Conference agrees that further work is required to resolve some outstanding issues. The principal issues are:
 - (i) The definition and method of assessment of reasonable expectations;
 - (ii) The scope, nature and acceptability of the understandings between the administering agency and individual participant countries on their development programmes and the policies to be adopted in order to carry them out;
 - (iii) The measures to be taken by countries applying for assistance;

- (iv) The relationship between supplementary finance and the IMF Compensatory Financing Facility.

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

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

6. The Conference decides:

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



United Nations Conference on Trade and Development

Second session
Agenda item 12

DECISION TAKEN BY THE CONFERENCE

31(II). Compensatory financing facility

The Conference notes with satisfaction that the International Monetary Fund has adopted measures for the liberalization of the Compensatory Financing Facility in response to recommendation A.IV.17 of the Final Act of the first UNCTAD. The Conference further notes that much more extensive use has been made of the Fund Facility since its revision in September 1966. As the revised Facility has been in operation only for a about 18 months, further experience seems to be necessary before any further revision of the Facility is undertaken. The Conference, however, draws the attention of governments members of the IMF to the following suggestions made in discussion and refers them to the Fund for consideration in its continuing review of the Facility.

1. Adverse movements in import prices should render a developing country eligible for a drawing under the Facility;
2. Drawings on the International Monetary Fund under the Facility should be immediately available up to 50 per cent of the countries' quotas in the Fund and such drawings should not be subject to any conditions;
3. The re-purchase liability in respect of outstanding drawings on the Facility should not arise within five years after the drawing and thereafter should fall due only in the years in which the countries' exports exceed the estimated trend value and should not exceed 50 per cent of the export excess;
4. The liability of the drawing country in respect of the interest charges on the outstanding compensatory drawings should be calculated separately from that in respect of ordinary drawings and that it should not attract the normal progressive interest provisions of IMF.



United Nations Conference on Trade and Development

Agenda item 12

DECISIONS TAKEN BY THE CONFERENCE

32(II). International monetary system - issues relating to
development finance and trade of developing
countries

1. The Conference recognizes the great interest of the developing countries in the satisfactory operation of the international monetary system so as to allow them to share the benefits of the continued expansion of the world economy.
2. The Conference notes with satisfaction the agreement reached during the annual meeting of the Board of Governors of the International Monetary Fund last September in Rio de Janeiro on an Outline to create Special Drawing Rights within the Fund, and the participation of the developing countries represented by their Executive Directors in the Fund in the negotiations that led to the agreement on the Outline. It stresses the importance of active participation of these countries in the operation of the new arrangements for Special Drawing Rights.
3. In view of the fact that, according to the Outline, the Special Drawing Rights will be distributed in proportion to member countries' quotas, the Conference invites governments members of the Fund to continue to give careful consideration to applications from developing countries for increases of quotas so as to enable these countries to benefit more from the facilities of the Fund.
4. The Conference recommends that the Secretary-General of UNCTAD, after consultation with the appropriate international institutions, review progress since the first Conference towards the reform of the international monetary system devoting particular attention to the needs of the developing countries in their trade with one another and the rest of the world, and, if he considers it necessary, that he should make to the Trade and Development Board in due course any suggestions which he may have for special study of this matter.
5. The developing countries stress the importance of the early activation of the Special Drawing Rights scheme.
6. During the last annual meeting of the Board of Governors of the IMF, the Executive Directors were also requested to review the rules and practices relating to the traditional activities of the Fund and to propose amendments in the light of such review. The developing countries recommend to governments members of the IMF that the

IMF, in its operations and in considering possible changes in its rules and practices with regard to the use of and conditions attached to drawings, should not introduce any changes that would work to the disadvantage of the developing countries, and that any change should be in the direction of softening the terms and conditions applicable to drawings by the developing countries. As a first step in this direction the IMF is urged to consider the extension of the repurchase period applicable to ordinary drawings by developing countries to seven to nine years.

7. With regard to the various proposals for forging a link between the creation of Special Drawing Rights and the provision of external development finance, the developing countries urge governments members of the IMF to consider at an early date the establishment of such a link.



ANNEX 10

United Nations Conference on Trade and Development

Distr.
GENERAL

TD/II/RDS/33
29 March 1968

Agenda item 12

RESOLUTION ADOPTED BY THE CONFERENCE

33(II). Increasing the flow of private capital to
developing countries

The United Nations Conference on Trade and Development,

Recognizing the important role that private foreign investment can play in the economic development of developing countries by providing capital, technical services and know-how,

Bearing in mind that continuing systematic study concerning the structures of foreign investment and its economic effects in the developing countries is essential, if foreign investment is to make its optimum contribution to development,

Bearing in mind the efforts and measures of both developed and developing countries, as well as interested international institutions, to promote foreign private investment in developing countries,

Recalling recommendation A.IV.12 of the first United Nations Conference on Trade and Development,

Taking note of the report entitled "The role of private enterprise in investment and promotion of exports in developing countries" (TD/35 and TD/35/Supp.1),

Believing that in the interest of increasing the flow of private foreign investment to developing countries and improving its effectiveness, it is important that this matter should be the subject of a dialogue between developed and developing countries,

Taking note of Economic and Social Council resolution 1286 (XLIII) of 14 November 1967 which requested the Secretary-General of the United Nations to consult with Governments and international organizations concerned on their experience and attitudes to the various problems discussed in the Secretary-General's report on promotion of foreign private investment in developing countries (E/4293) and on opportunities and means of implementing the specific recommendations contained in that report,

ND.68-4663

Taking note of General Assembly resolution 2091 (XX) and Economic and Social Council resolution 1201 (XLII) which calls on the Secretary-General of the United Nations to undertake thorough study of the manner, forms, conditions, costs and effects of the transfer of patented and non-patented technology from foreign enterprises to enterprises in developing countries (both public and private),

1. Requests the Secretary-General of the United Nations in carrying out these tasks, in particular with a view to providing useful guidelines to both developing and developed countries with respect to foreign investment, to bear in mind inter alia the importance of the following considerations:

- (a) Criteria and practices employed by developing countries for the acceptance and promotion of foreign investment;
- (b) Developing countries' policies governing relative shares of foreign and host country investors in capital investment;
- (c) The forms of foreign equity participation such as cash investment, supply of machinery and equipment, provision of technical services and know-how;
- (d) Policies and practices governing foreign participation in management and training of management personnel in developing countries;
- (e) Investment opportunities and fields of investment for foreign enterprises;
- (f) Policies and measures of developing countries with regard to the use of patents and licences supplied by foreign enterprises;
- (g) Adequacy of existing business practices for transfer of technology to developing countries through patents and licences by foreign enterprises;
- (h) Policies applied by foreign enterprises with respect to goods and services produced by these firms;
- (i) Tax treatment of foreign investment, both in capital importing and capital exporting countries;
- (j) Practices of foreign enterprises as regards exports of products resulting from foreign investment and/or grant of patents and licences;
- (k) Reinvestment undertaken by foreign enterprises from income earned in developing countries;
- (l) Policies applied by the developed countries with regard to the flow of private capital to developing countries and by developing countries with regard to the repatriation of capital and earnings;

- (m) The introduction of incentives by the developing and developed countries to encourage such flows;
- (n) Policy of developing countries towards employment of foreign personnel and imports of machinery and equipment;
2. Notes with interest that in accordance with General Assembly resolution 2276(XVII), the Secretary-General of the United Nations is requested to include in the regular report on the international flow of long-term capital and official donations such statistics as are available of reverse flows of capital from the developing countries, assessing their significance in relation to total financial transfers and giving an analysis of factors affecting them;
3. Further requests the Secretary-General to undertake a study of the economic effects of foreign investment, as outlined in Annex XIII of the Report on "Measurement of the flow of resources to developing countries." ^{1/}
- The studies shall take into account:
- (a) The level of economic development of the developing countries;
- (b) Studies carried out by other agencies with respect to any of the items enumerated in operative paragraph 1. The studies shall, on the basis of their findings, also recommend policy measures and practices concerning foreign investment and transfer of technical services and know-how, and make any suggestions relevant to the purpose of the study;
4. Recommends that these studies and reports be submitted to competent United Nations organs, including UNCTAD, for consideration and appropriate action at the earliest opportunity, including consideration of the appointment of a group of governmental experts for examination of the issues involved. They should also be brought to the attention of other interested international organizations, and through their respective governments, to non-governmental organizations concerned with private investment.
5. Expresses the hope that progress can be expedited in the study undertaken by the IBRD on multilateral investment insurance and requests the Secretary-General of UNCTAD to invite the IBRD to submit a progress report and any other relevant material which the Bank considers it appropriate to release to the next session of the Committee on Invisibles and Financing related to Trade.

^{1/} United Nations Publication Sales No. 67.II.D.17.

GROWTH, DEVELOPMENT FINANCE AND AID
(SYNCHRONIZATION OF INTERNATIONAL AND NATIONAL POLICIES)World Bank Group mattersRevised text of Note by the Chairman of the
Third Committee on World Bank Group matters

The following text is submitted to the Third Committee for consideration:

1. The Conference recognizes the contribution of the work of the IBRD and its affiliates in the promotion of development of developing countries. The Conference notes with appreciation the completion of negotiations for the replenishment of the resources of the IDA at a higher level. It also notes that the World Bank Group has continuously adjusted its activities to the needs of the developing countries.
2. The Conference encourages governments of countries, members of the World Bank and its affiliates, to continue their support for the work of these institutions and recommends to those governments to advise their representatives in the competent organs of the IBRD and its affiliates to consider the following questions, while bearing in mind the need to safeguard the Bank's ability to borrow:
 - (a) that the Bank Group should devote as large a part as possible of its resources for assistance to developing countries;
 - (b) that the Bank Group should be alert to the necessity for new approaches in its lending policies and procedures, for example in keeping under review the advisability of financing non-private and semi-public productive enterprises and the possibility of extending IDA financing to projects and programmes designed to correct regional imbalances in the developing countries;

- (c) that the Bank Group should continue, in appropriate cases, to extend loans for purposes wider than the financing of individual projects and that it should consider, wherever necessary, the financing of local costs;
- (d) that the Bank Group should continue co-operating with regional financial institutions both in co-ordinating their operations and, where appropriate, in financing jointly projects of regional importance;
- (e) that the Bank Group should continue and, to the extent feasible, increase its operations relating to rural and urban development (including public sanitation and water supply), education, agriculture and projects designed to foster economic integration;
- (f) that the Bank Group should extend, to the extent feasible, its co-ordinating services relating to particular countries, such as consultative groups;
- (g) at the request of the parties involved, the Bank Group should co-operate in the consideration of measures to deal with external debt problems;
- (h) that the Bank should keep under review the possibility of applying the legal provisions of its Articles of Agreement empowering it to give guarantees for loans to developing countries;
- (i) that the activities of the International Finance Corporation should be expanded in particular with regard to undertakings in developing countries and especially to projects which promote economic integration;

- (j) that the IDA should explore the possibility of receiving trust funds in administration from various governments and institutions;
- (k) that the IDA in distributing its funds should give particular attention to the least-developed among the developing countries, in particular to those developing countries which have not yet received adequate international aid.

(4) GROWTH, DEVELOPMENT FINANCE AND AID (SYNCHRONIZATION
OF INTERNATIONAL AND NATIONAL POLICIES)Extension of the operations of the World Bank and its affiliates
(agenda item 12)

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

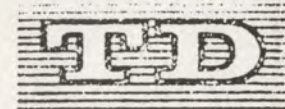
The Conference,

1. Recommends that the Governments of countries which are members of the World Bank and its affiliates should request at the next meeting of the Board of Governors that the Bank should study the transformation and adaptation of the activities of the group to enable it to devote itself entirely to aid to the developing countries, and that to this end the necessary policy reforms should be introduced, with particular reference to the following considerations:

- (a) That the Bank should consider the possibility of financing plans and programmes including, wherever necessary, local costs, instead of financing only projects as has been its traditional policy;
- (b) That the Bank should consider the imperative need to ensure that loan periods shall be longer and interest rates easier for developing countries;

- (c) That the Bank should enter into negotiations with the debtor developed countries to examine the possibility of advance payment of their debt balances;
- (d) That the Bank should increase its aid to countries which still have no direct access to international capital markets and to those developing countries which have not yet received adequate international aid;
- (e) That the Bank should enlarge its loan policy with a view to giving effective financial assistance to projects of non-private and mixed enterprises engaged in industrial activity, especially those which are working in strategic areas of development;
- (f) That the Bank should consider financing public health projects and programmes and should broaden its operations relating to rural and urban development, education, agriculture and economic integration;
- (g) That the Bank should agree to administer trust funds provided by various Governments and institutions, preferably of an untied nature;
- (h) That the Bank should apply the legal provisions of its Articles of Agreement empowering it to give guarantees for loans to developing countries from capital-exporting countries; and second, to place bonds in both international and national markets;
- (i) That the Bank should increase its co-operation with regional financing institutions, and where appropriate should grant credits jointly with regional banks and with banks and corporations engaged in the field of integration;

- (j) That the Bank should extend and broaden its consortium and consultative group services so that a larger number of developing countries can use them;
 - (k) That the Bank should co-operate with countries, at their request, in negotiations with creditor countries for the consolidation, conversion and re-negotiation of their external debts;
 - (l) That the operations of the International Finance Corporation should be expanded in the most effective possible way giving preference to undertakings in developing countries and particularly to those activities which fall within the process of economic integration;
 - (m) That the Bank should vigorously pursue negotiations with the developed countries in order that the International Development Association may have at its disposal the additional funds needed to expand its activities as soon as possible;
 - (n) That the International Development Association should broaden its lending policy so as to finance projects and programmes designed to correct regional imbalances in the developing countries;
 - (o) That in distributing its funds the International Development Association should give attention to those developing countries which have not yet received adequate financial and technical aid and to the least-developed among the developing countries.
2. Further recommends to the Board of Governors of the Bank that the terms and conditions of development loans provided by the Bank, including interest rates, commitment charges and repayment periods, should be adapted to the particular needs of the least developed countries.



United Nations Conference on Trade and Development

Agenda item 5(c)

RESOLUTION ADOPTED BY THE CONFERENCE

15(II) Trade relations among countries having different economic and social systems including problems of East-West trade, paying attention particularly to the trade interests of developing countries and taking into account the work in this field of other United Nations organs, including the regional economic commissions

The United Nations Conference on Trade and Development,

Recognizing the desirability of expanding East-West trade on the one hand, and trade between developing countries and socialist countries on the other,

Recalling the relevant parts of General Assembly resolutions 1995(XIX) of 30 December 1964 and 2085(XX) of 20 December 1965,

Recalling the second, sixth, seventh and eighth general principles governing international trade relations and trade policies conducive to development as embodied in the recommendation in Annex A.I.1 of the Final Act of the first session of the Conference,

Noting the declaration unanimously adopted at the twenty-second session of the United Nations Economic Commission for Europe concerning the further development of trade, economic, scientific and technical co-operation between the member countries of the Commission,

Bearing in mind the recommendations in Annexes A.II.1, Part 2B, A.III.2, A.III.7 and A.VI.7 of the Final Act of the first session of the Conference,

Noting the statement made by the Secretary-General of the United Nations at the 51st plenary meeting of the second session of the Conference to the effect that "it is an inevitable consequence of growing international interdependence that the construction of any one channel of economic relationship tends to react adversely upon other channels as well",

Considering that East-West trade is an integral part of world trade and that the expansion of this flow of trade would positively affect the expansion of international trade as a whole, including the trade of developing countries, provided that necessary constructive measures to promote trade and economic relations with developing countries are undertaken by those two groups of countries.

A

1. Recommends that countries participating in East-West trade, while giving due consideration to the interests of developing countries, and in accordance with principles as embodied in the Final Act of the first session of the Conference,
 - (a) continue their common efforts towards the expansion of trade and, to this end, seek to remove the economic, administrative and trade policy obstacles to the development of trade,
 - (b) promote constructive measures in the field of economic, industrial, technical and scientific co-operation,
 - (c) consider any further appropriate policies or measures aimed at expanding economic relations between them on the basis of mutual advantage;
2. Recommends that countries participating in East-West trade ensure, through positive measures, that the expansion of trade between them does not unfavourably affect the trading possibilities of the developing countries and leads to expansion of trade between them and the latter.

B

Recommends that Socialist countries of Eastern Europe:

1. Adopt the necessary measures, taking duly into consideration the trade needs of the developing countries when quantitative targets are fixed in their long-term economic plans, to expand further their trade with developing countries and, at the same time, to promote the diversification of the structure and of the geographical basis of this trade with these countries, in order that the largest possible number of developing countries derive the maximum benefit from this trade. They will endeavour to maintain and, whenever possible, to accelerate the rate of growth of trade exchanges with developing countries;
2. Conclude long-term agreements for the purchase of commodities from the developing countries which would include suitable provision aiming at a satisfactory solution as to volume and stability of prices of primary commodities;
3. Abolish or reduce, on a preferential basis, tariffs on manufactures and semi-manufactures imported from developing countries;
4. Accord preferential conditions in their procurement policies for products imported from developing countries, it being understood that each of them will do so in accordance with the modalities of its foreign trade system;

5. Take all practicable steps, within the framework of their respective national economic policies, in order to grant such favourable terms to imports from developing countries and to consumption of products imported;
6. Alongside bilateral forms of agreements, multilateralize to the extent possible when acceptable to the interested countries payments arrangements between them and developing countries to facilitate and stimulate the expansion of their trade with developing countries;
7. Ensure that the period of validity of the contracts concluded between their agencies and enterprises and those of the developing countries would be sufficiently long to enable the agencies and enterprises in the developing countries concerned to plan and execute with greater efficiency their investment, production and delivery programmes;
8. Adopt appropriate measures designed to maximize and diversify imports of primary commodities, semi-manufactures and manufactures from developing countries, giving due consideration to the trade and development interests of the latter, and to that end;
 - (a) take into account the production and export potential of developing countries in drawing up their plans;
 - (b) not encourage the import of primary commodities from other sources whenever they are available on competitive terms in developing countries;
 - (c) undertake measures so that imports of manufactures and semi-manufactures from developing countries constitute a growing element in their total imports of manufactures and semi-manufactures;
9. Refrain from re-exporting the goods purchased from developing countries, unless it is with the consent of the developing countries concerned;
10. Take into consideration when extending credits for the financing of projects in developing countries the particular conditions of the countries concerned and make provisions, where appropriate, for their repayment by the export of the products of those projects or other products;
11. In the light of the recommendation in Annex A.III.2 of the Final Act of the first Conference, encourage the conclusion of industrial branch agreements on partial division of labour, providing inter alia for the supply of plants and equipment on credit to the developing countries accepting repayment of such credits, in particular, with the goods manufactured by these plants in the developing countries concerned;
12. Co-operate in the technological research efforts of developing countries by making available to them, on the most favourable terms possible, the results of their work in this field and also by helping national research efforts in these countries;

C

1. Recommends that developing countries, in their efforts to increase their over-all trade, give, in particular, due attention to the possibility of expanding their trade with socialist countries -
 - (a) by encouraging direct trade relations with these countries,
 - (b) by endeavouring to adapt their exports to commercial specifications required by their trading partners,
 - (c) by granting to these countries conditions for trade not inferior to those granted normally to the developed market economy countries,
 - (d) by undertaking steps to facilitate the implementation of the measures enumerated in Part B and by carrying out other positive measures with a view to promoting the further expansion of economic ties and the increase and diversification of mutual trade exchanges.

D

1. Requests the Secretary-General of UNCTAD, in consultation with the regional economic commissions of the United Nations and with the United Nations Economic and Social Office in Beirut and with other competent organs of the United Nations, to keep under review the progress achieved in the expansion of trade (a) between developed market economy countries and socialist countries giving due consideration to trade interests of developing countries and (b) between socialist countries and developing countries, and to continue to submit periodical reports thereon to the Conference and to the Trade and Development Board, including the sessional committee to be convened under paragraph 3 hereunder;
2. Further requests the Secretary-General of UNCTAD
 - (a) to address a questionnaire to governments on the problems involved in the establishment of different forms of multilateral payments arrangements between developing and socialist countries and also suggestions thereon and to prepare, for the group of experts mentioned below, a background study on the topic taking into account replies received from the countries concerned and having in view the Report on Payments Arrangements among the Developing Countries for Trade Expansion (TD/B/80/Rev.1),

(b) to convene a group on multilateral payments arrangements, not later than the first quarter of 1969, consisting of experts from interested Socialist, developing and developed market economy countries to examine, taking into account the study prepared by the Secretary-General and other relevant information, the suitability of different forms of multilateral payments arrangements between developing and Socialist countries and to submit its recommendations thereon to the Trade and Development Board for consideration and action;

3. Requests the Trade and Development Board to convene periodically a sessional committee to proceed, in the light of the present recommendation, to consultations on, and to the elaboration of proposals concerning, inter alia,

(a) the expansion of East-West trade giving due consideration to the trade interests of developing countries,

(b) the expansion of trade between Socialist countries and developing countries.

76th plenary meeting
25 March 1968



ANNEX 14

Distr.
GENERAL

TD/II/RES/9
25 March 1968

United Nations Conference on Trade and Development

Second session
Agenda item 9(f)

RESOLUTION ADOPTED BY THE CONFERENCE

[on the report of Working Group I (TD/81)]
9(II). Declaration on the World Food Problem

The United Nations Conference on Trade and Development,

STATES THAT

1. half of mankind is undernourished or badly fed, because the world production of energy-giving and protective foods is insufficient to satisfy nutritional requirements. The millions of people suffering from hunger and malnutrition live in developing countries.
2. in nearly all the developing countries, a backward agricultural sector has in recent years been unable to increase food output fast enough to match the increase in the demand for food resulting from population growth and rising incomes. For this reason, these countries are obliged, even for maintaining present low levels of nutrition, to import food in ever-increasing amounts, to the detriment of their capacity to import capital goods essential for accelerating their economic development.
3. the food surpluses in developed countries which have hitherto been used to cover emergency world shortage have been substantially reduced, and the surplus of cereals has practically disappeared.
4. in most developing countries there exists at the same time a deep social and human problem which arises, like the world food problem, from the insufficient dynamism of the agricultural sector - namely, the chronic under-employment and the low incomes of the rural population. The level of living of the rural population which constitutes the vast majority of the total population in these countries is incompatible with human dignity and the rural population is unable to participate actively enough in the common endeavour to overcome under-development.

5. some favourable developments have taken place recently with regard to these problems. Some developing countries are making promising progress in increasing their agricultural production and improving the productivity of the agricultural sector, through substantial national efforts in matters of investment, improved technology and structural reforms, supported in some cases by more active international co-operation. Moreover, in recent years the conscience of the world has been alerted to the dangers and urgency of the world food problem, particularly through the FAO Freedom From Hunger Campaign.

RECOGNIZES THAT

1. the persistence of these problems constitutes one of the major obstacles to social and economic development. Hence the solution to these problems is the joint responsibility of the whole international community. The primary responsibility rests with the developing countries themselves which must increase their food production, as the basic and permanent means of satisfying their needs. They must also raise the level of living of the rural populations. The developed countries should co-operate fully in these efforts of the developing countries.
2. the rapid development of agriculture, which is indispensable not only for producing food, producing raw materials for some industries and providing employment but also, in the case of exporting countries, as a means of earning foreign exchange, is an essential part of general economic and social development. Agricultural and industrial development are inter-dependent. This inter-dependence calls for the balanced and integrated growth of the various sectors of the economy, coupled with a dynamic policy of social justice and betterment of the living conditions of humanity.
3. effective action to overcome the world food problem and to modernize rural life in developing countries should consequently be conceived in the framework of a universal endeavour dedicated to the fullest and most effective use of all human, scientific and natural resources to ensure a faster rate of economic growth and parallel social progress.
4. the ultimate solution of the world food problem requires a series of convergent measures some of which would have immediate effects and others long-term results. Overall measures should be directed to increasing food production through actions of institutional, technical, social and economic character; to the improvement of marketing at both national and international levels; to the development of agricultural industries and to the consideration of the dynamics of population. The adoption of measures to increase supplies, including food aid, to meet shortages and the

application of improved techniques will continue to be required to alleviate the situation in the short-term. Action should be taken urgently on measures having both immediate and long-term effects.

AFFIRMS THAT

1. the United Nations, with its subsidiary organs, the specialized agencies, the World Food Programme and the international financial institutions have important responsibilities in the solution of the world food problem.
2. the Food and Agricultural Organization has a crucial role as the international agency entrusted with the task of raising levels of nutrition and the standards of living of rural people and securing improvements in the efficiency of production and distribution of all food and agricultural products. Present trends in FAO and the regional and international Banks toward the planning and execution of practical programme and integrated projects leading to international and national investment should be supported and encouraged by member countries.
3. the integrated approach to the world food problem calls for the fullest co-operation and co-ordination among the international organizations concerned, and for the utilization, as appropriate, of the opportunities provided by bilateral programmes and those of certain private foundations.

NOTES WITH APPROVAL the assistance already extended by the international organizations concerned and certain major undertakings, including inter alia:

- (a) the elaboration of plans for the Second Development Decade 1970-1980;
- (b) the FAO Indicative World Plan for Agricultural Development;
- (c) the Inter-Agency Study on Multilateral Food Aid initiated under General Assembly resolution 2096 (XX) of 20 December 1965;
- (d) efforts to expand multilateral food aid under the World Food Programme;
- (e) the Convention on food aid of the International Grains Arrangement, 1967, and similar possibilities of mobilizing through international arrangements for other commodities the capacity of both developing and developed countries to produce supplies for food aid purposes;
- (f) the Agricultural Development Fund of the Asian Development Bank.

THEREFORE URGES

Developing countries

1. to pay special attention, in the formulation of balanced and integrated plans, to the requirements of the agricultural sector, taking account of the food situation and of the important role of this sector in overall development, and to remove such impediments to increases in agricultural production as arise from agrarian and credit structure inherited from the past, to carry out, wherever appropriate, the reforms in the systems of land tenure, land and water use and credit and to modernize administrative institutions;
2. to plan agricultural production in the interest of balanced economic development taking into account current and potential requirements;
3. to lay emphasis on the development of human resources and to this effect, among other measures, to adopt programmes of mass education in the rural areas, technical training and community development, to ensure an active participation by the farmers in the common tasks to increase their income and their standard of living and to ensure the enjoyment of their political, social, economic and cultural rights;
4. to promote the establishment and expansion of co-operative organizations to be effective instruments for a better development of production and marketing of foodstuffs;
5. strengthen measures for improving the availability of key agricultural requisites, including fertilizers, improved seeds, pesticides, improved agricultural machinery and implements, and to provide adequate advisory and extension services and institutions for training and research with due attention to the adaptation of methods and techniques to local conditions;
6. promote the establishment of agro-industries, specially those supplying the agricultural sector with fertilizers, pesticides and agricultural machinery and equipment;
7. improve transport, marketing, storage and distribution facilities;
8. pay special attention, where necessary, to increased water supply including ground water exploitation;
9. intensify their efforts to make better use of the resources of the sea and of the fishery resources of both sea and river for human foodstuffs, through, among other measures, the application of modern technology in small fishery industries and the technical training of fishermen;

10. promote adequate pricing policies which take into account the need to attain the maximum degree of production as well as appropriate level of efficiency;
11. promote national reserves of foodgrains for stabilization of consumer prices and meeting emergencies;
12. increase their efforts to conclude agreements on complementary food production within the existing regional and sub-regional integration schemes and other regional and sub-regional agreements in conformity with national development programmes;
13. consider the effects of the problems created by the dynamics of population on food requirements and take appropriate measures;
14. encourage foreign private investments and the inflow of private capital for the above-mentioned purposes, if it is in accordance with their national development plans;

Developed countries

1. within the framework of their respective global aid programmes and in the light of the targets set by the Conference with regard to the volume of aid,
 - (a) to continue and to strengthen their aid to developing countries making efforts to increase food production and modernize the agricultural sector and for this purpose to give more emphasis, in response to requests of these developing countries, to increasing the assistance by providing agricultural requisites, especially fertilizers, pesticides, improved seeds, agricultural machinery and implements;
 - (b) to lay also equal emphasis on aid intended for the establishment of agro-industries for the manufactures of fertilizers, pesticides, agricultural machinery and water development equipment and to promote, for the same purpose, private investment if it is in accordance with national development plans of developing countries;
 - (c) to continue and to strengthen the necessary technical assistance through bilateral and multilateral channels including such assistance as would improve the quality of human resources which are crucial to economic growth;
 - (d) to provide food aid on a fair and just basis among developed countries as an interim measure of assistance to food-deficit countries, in such a way as not to affect the productive capacity of the recipient countries and,

to the greatest practicable extent, in accordance with the FAO Principles of Surplus Disposal. This food aid should also assist the food-deficit countries in building up emergency reserves replenishable from time to time for short term needs. In the case of food-importing donor countries, however, due account should be taken of their special circumstances,

Food aid should be given on a grant basis or a loan basis on as generous terms as circumstances permit.

Food aid should not provide undue incentives for an increased production in developed countries.

Food aid should mobilize where appropriate through international arrangements the capacity of developing countries to produce food supplies for food aid purposes.

Any increase in cash contributions to multilateral food aid programmes should be used, where practicable, for the purchase on economic terms of food from the developing countries.

2. to carry out, to the extent practicable, measures providing more favourable conditions of access to their markets for primary products exporting countries, particularly bearing in mind the interests of developing countries, and permitting primary products exporting countries to participate in the growth of the markets of industrial nations.

The international organizations concerned

1. to intensify their co-operation with the developing and developed countries in their joint efforts to solve the world food problem, support and, within the limits of their resources and constitutional responsibilities, carry out an effective assistance to developing countries;

2. to take into account in so doing, among other considerations, the need for a co-ordinated global approach to action on the world food problem, including development on the agricultural sector and trade in agricultural products, as a guide to developing and developed countries and international agencies in the formulation and implementation of their plans, policies and programmes;

3. in adapting their structure, strategy and programmes to the changing situation and the global efforts, to concentrate their activities and, in so far as their particular character permits, place greater emphasis on operational aspects, decentralize their services and strengthen their work in the field;
4. in financing agricultural development programmes and projects by international agencies, to give appropriate emphasis to the importance of providing, in response to requests, sizeable amount of agricultural requisites as an essential element in their assistance.

70th plenary meeting
22 March 1968



ANNEX 15

Dissemination
GENERAL

TD/II/RES/24
28 March 1968

United Nations Conference on Trade and Development

Second session
New Delhi, India
Agenda item 15

RESOLUTION ADOPTED BY THE CONFERENCE

- 24(II). Special measures to be taken in favour of the least developed among the developing countries aimed at expanding their trade and improving their economic and social development

The United Nations Conference on Trade and Development.

Recognizing the differing characteristics and stages of development of developing countries and recalling the Final Act of the first session of the Conference.

Further recognizing the special problems that confront the least developed amongst the developing countries in their efforts to accelerate their economic and social improvement and aware of the need to provide effective and concrete measures that can ensure their sustained economic growth and enhance the ability of the least developed countries to benefit fully from the general measures in favour of all developing countries,

Accepting that such measures should be adapted to the particular situations and specific problems of these countries,

Taking note of the Charter of Algiers (TD/38 and its Annex II) and of the special measures which could be taken as outlined in the documents of the UNCTAD secretariat.

Convinced that the international community, when embarking upon a policy of co-operation for development, should pay due attention to the special handicaps of the least developed countries with the object of removing their disabilities.

Recognizing that it is necessary to study further and to elaborate the detailed measures which could be taken in this regard within the various fields of activity of the UNCTAD and other organs of the United Nations and of other international organizations,

Having agreed that it should not be the objective of any special measures taken in favour of the least advanced developing countries to create discrimination among the developing countries but to ensure due benefits for the least developed among them so that all developing countries can gain equitable benefits,

Affirming the need to pay particular attention to the least developed countries in measures and concrete decisions emanating from UNCTAD and other organizations of the United Nations system concerned with the problems of economic development,

Further affirming that special support should be given by States members of UNCTAD, the international institutions and the regional economic commissions to the least developed countries so as to ensure their active participation in world trade and development, including regional and sub-regional industrial development,

1. Recommends that special measures be devised, within a global strategy, of convergent measures in order to enable the least developed among the developing countries to derive equitable benefits so that all the developing countries are enabled to gain comparable results from the co-operation of member countries of UNCTAD, particularly the co-operation between developing and developed countries. The possibilities of devising such measures in relation to both developed market economy and socialist countries, and in accordance with the practices of these countries' particular economic systems, should be examined in the following spheres among others:

- (a) commodity policy
- (b) manufactures and "semi-manufactures"
- (c) development finance
- (d) regional economic integration
- (e) invisibles and shipping
- (f) trade promotion
- (g) special technical and financial assistance;

2. Invites the international bodies responsible for particular measures designed to benefit developing countries generally, whenever possible, to design the form of and elaborate on the special measures which might be taken in favour of the least developed countries and to identify such countries in the context of each measure concerned, taking fully into account the identifying criteria relevant to the policy measure in question;

3. Resolves

(a) the Trade and Development Board and its subsidiary organs to bear in mind in all their activities, studies and decisions the special needs of the least advanced among the developing countries and to keep this question under review on a continuing basis;

(b) the Secretary-General of UNCTAD to undertake studies of different aspects of the special problems of least developed countries with a view to devising effective measures that would enable these countries to benefit fully from measures undertaken within the UNCTAD programme and framework;

(c) the Secretary-General of UNCTAD to continue studies relative to the identification of least developed countries and to examine the various approaches to this problem, taking into consideration the recommendations and the report of the Conference and the work undertaken by the regional economic commissions and the invitation in paragraph 2 above with the object of suggesting practical guidelines to be followed in the process of identification;

4. Invites:

(a) other organs of the United Nations, as well as other international organizations whose activities may have a bearing on measures which can be taken to assist the least advanced of the developing countries, to pay special attention in their activities to the problems of these countries and wherever possible to introduce, within the measures they may recommend or undertake in favour of developing countries as a whole, particular provisions to assist the least advanced among them,

(b) in particular the regional economic commissions for Asia and the Far East, for Latin America and for Africa, to pay special attention in their work programme to the special problems of the least developed countries of their regions, and also to undertake studies and take any other action which they consider appropriate to enable the Secretary-General of UNCTAD to suggest guidelines as in paragraph 3(c) above;

(c) the States members of UNCTAD, the regional economic commissions and the appropriate bodies of the United Nations system to co-operate with the Secretary-General of UNCTAD by providing information relevant to the preparation of the studies mentioned in the above paragraphs;

(d) the United Nations Development Programme, (UNDP), the United Nations Industrial Development Organization (UNIDO) and the international financial institutions to devote particular attention to the needs of the least developed countries in the drawing up of their programmes of assistance, and in identifying viable projects and promoting their financing.



Distr.
GENERAL

United Nations Conference on Trade and Development

TD/II/RES/11
26 March 1968

Second session
Agenda item 5(g)

RESOLUTION ADOPTED BY THE CONFERENCE

[on the report of Working Group III (TD/69)]

11(II). Special Problems of the Land-locked Countries

The United Nations Conference on Trade and Development,

A

Recalling the Principles relating to Transit Trade of Land-locked Countries which were adopted by the first session of UNCTAD (Final Act, Annex A.I.2),

Recalling that, on the basis of these Principles, the United Nations Conference on Transit Trade of Land-locked Countries adopted on 8 July 1965 the Convention on Transit Trade of Land-locked States,

Noting that the Convention entered into force on 9 June 1967 but so far has been ratified or acceded to by only two transit States having a sea-coast,

Noting further that the Convention is open for ratification or accession without any time limit,

Considering that, for the promotion of the trade and economic development of the land-locked States, it is essential to provide facilities to enable them to overcome the effects of their land-locked position on their trade,

Recalling General Assembly resolution 1028 (XI) of 20 February 1957,

1. Urges all States invited to become parties to the 1965 Convention to Transit Trade of Land-locked States to investigate the possibilities of ratifying or acceding to it and to make it effective at the earliest possible date.

B.

Recognizing that

(a) the land-locked position of many developing countries affects the expansion of trade and economic development of these countries and may hamper them in taking advantage of some of the international measures envisaged to support the trade expansion and economic development of all developing countries,

(b) the special problems involved in the promotion of the trade and economic development of the land-locked developing countries, in particular the high cost of transportation due to distance from sea, the poor state of transport and communications and other factors inhibiting the execution of their trade expansion and economic development programmes, call for special attention and require special solutions,

Convinced that the international community, when embarking upon a comprehensive policy of co-operation for development, should pay due attention to the above-mentioned special problems of the land-locked developing countries,

Noting that, within the framework of some United Nations regional economic commissions and some regional and sub-regional economic groupings of developing countries, studies of certain important aspects of the special problems of the land-locked developing countries of the regions or sub-regions concerned have been initiated with a view to contributing to their solution,

1. Recommends that, in view of the special problems of the land-locked developing countries, the land-locked situation should be considered as a factor in determining the criteria for the identification of the least developed among the developing countries;

2. Recommends that the Governments of the developed countries, in their financial and technical assistance programmes in the field of transport and communications, should accord appropriate attention to the special needs of land-locked developing countries in extending adequate financial and technical assistance to projects designed for the development and improvement of the transport and communications infrastructure needed by these countries, in particular of the transport modes and

facilities most convenient to them and mutually acceptable to the transit and the land-locked developing countries concerned, including joint projects concluded by common agreement with the transit States concerned for the establishment, expansion and/or improvement of transport and communications facilities serving the transit trade of the land-locked countries;

3. Further recommends that the appropriate international financial institutions be invited to give similar attention among their priorities to the matters mentioned in the preceding paragraph;

4. Calls on transit countries to extend their fullest possible co-operation to the formulation and execution of the projects mentioned in the preceding paragraph;

5. Recommends that the land-locked developing countries and the transit countries should enter into consultations and negotiations, whether bilaterally or on a regional or sub-regional basis, with a view to examining jointly the special difficulties which the land-locked developing countries face in the promotion of their trade and economic development, and to concluding agreements designed to overcome such difficulties in accordance with the nature of each particular case, paying special attention to the facilities requested by the land-locked countries for their transit trade;

6. Further recommends that the Governments of the developed countries be invited to bear in mind, in their assistance programmes or through the international organizations concerned, the possibility of extending loans on favourable terms:

(a) to the land-locked developing countries for the development of transport and communication facilities designed to help the latter to overcome the special difficulties of their land-locked position;

(b) to the developing land-locked and transit countries for the development of transport and communication facilities referred to in paragraph 2 above designed to help the developing countries concerned to overcome the special difficulties of the land-locked position;

7. Recommends that the Governments of States members of UNCTAD invite liner conferences and equivalent organizations, directly or through the shipowners members of them, and likewise insurance companies, to bear in mind, in forming their respective tariff policies, the special problems of land-locked developing countries;

8. Calls on the developed land-locked countries, through the exchange of information experience, training and technical know-how, to lend, upon request, directly or through the appropriate United Nations bodies, special assistance to the land-locked developing countries in outlining suitable solutions to the special problems of the latter;

9. Invites the regional economic commissions concerned with the developing regions and the regional and sub-regional economic groupings of the developing countries to pay special attention in their work programmes to the special problems in the field of the trade expansion and economic development of the land-locked countries members of such regional economic commissions and regional or sub-regional economic groupings, and to give special consideration to the need of greater participation of such land-locked developing countries in regional and international trade;

10. Requests:

(a) the Secretary-General of UNCTAD, in consultation with the Under Secretary-General of the United Nations for Economic and Social Affairs, to establish a group of experts to carry out a comprehensive examination of, and to report upon, the special problems involved in the promotion of the trade and economic development of the land-locked developing countries, a special study to be made in this examination of the transport problems, outlining possible ways by which the adverse effects of higher transportation costs on the trade position, production costs and execution of economic development programmes of the land-locked developing countries might be minimized; the background material to be prepared for the examination by the group of experts shall draw fully upon the experience and competence in this field of other appropriate United Nations bodies, in particular the Department of Economic and Social Affairs and the regional economic commissions; the report of this expert group should describe the experience so far gained in the solution of the above-mentioned problems and outline further practical measures and procedures for presentation to the Trade and Development Board for consideration and appropriate action;

(b) the States members of UNCTAD, the regional economic commissions, the specialized agencies concerned, the economic groupings of the developing countries and other international organizations dealing with the subject to co-operate with the Secretary-General of UNCTAD by providing to the extent possible, information relevant to the preparation of the studies and reports mentioned in this paragraph;

(c) the Secretary-General of UNCTAD to follow the progress made in giving effect to the recommendations made in this resolution and to report thereon in his annual reviews of international trade and economic development to be prepared in pursuance of the Trade and Development Board's resolution 19(II).

71st plenary meeting
23 March 1968

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FROM: The Secretary

April 8, 1968

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Attached for information are the texts of the following seven documents submitted and agreed upon in the closing hours of the United Nations Conference on Trade and Development held recently in New Delhi:

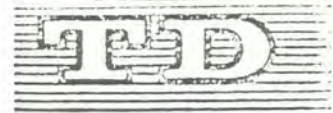
- I. Improving the Terms and Conditions of Aid
Alleviating the Problems of External Indebtedness.
- II. Improving the Mobilization of Internal Resources.
- III. Compensatory Financing Facility.
- IV. Increasing the Flow of Private Capital to
Developing Countries.
- V. Aid Volume Target.
- VI. Supplementary Financial Measures.
- VII. International Monetary System - Issues Relating
to Development Finance and Trade of Developing
Countries.

It is believed that these are the final texts as approved by the Plenary Session on March 29, 1968. As it will be a month or more before the rapporteur's report containing authenticated texts will become available, the attached texts of documents of particular interest to the World Bank Group are being made available at this time.

There is also attached a copy of document TD/II/C.3/L.35 of March 20, 1968, concerning World Bank Group matters, being a Note by the Chairman submitted to the Third Committee. It is understood that a short covering resolution transmitting this text to the Trade and Development Board was approved during the final session of the Conference.

Distribution:

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United Nations Conference on Trade and Development

Second session
Agenda item 12

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

Note by the Chairman of the Contact Group of the Plenary

Following consultations within the Contact Group the attached texts are submitted to the Conference for consideration.

I IMPROVING THE TERMS AND CONDITIONS OF AID
ALLEVIATING THE PROBLEMS OF EXTERNAL INDEBTEDNESS

Terms of Aid

1. The Conference endorses the view expressed in the Agreed Statement of the Problems of Development that the terms of development assistance generally remain too hard. Further efforts are required to soften the terms of aid and to harmonize the terms given by individual developed countries to individual developing countries. Developed countries agree to renew their efforts to achieve by the end of 1968 the terms and conditions of external resources laid down by the Development Assistance Committee (DAC) of the OECD in its Resolution of July 1965, and by the General Assembly of the United Nations in its Resolution 2170 (XXI). The Conference urges those countries which are now furthest from these norms to make special efforts to achieve them.
2. The Conference notes with appreciation that a review of the terms and conditions specified in the Recommendations of the DAC is to be undertaken this year and expresses the hope that it will result in further liberalization of them. It considers that efforts should be made to raise the norms set out in the present target, either by increasing the amount of aid given in the form of grants, or by improving interest rates, maturities or grace periods, or by increasing the grant element of the official aid commitments of donor countries. Developing countries and some developed countries consider that either of the following alternative norms, to be achieved by the end of 1970, should be specified for each donor country.

Either

- (a) developed countries might provide 80 per cent or more of their official aid in the form of grants;

Or

- (b) they might;
 - (i) provide 90 per cent of their official aid commitments as grants or loans at 2.5 per cent interest or less, with a repayment period of 30 years or more;
 - (ii) attain a minimum grace period of 8 years.

The developed countries generally take note of these suggestions and will consider them in the evolution of their assistance policies.

3. The Conference recognizes that the ability of individual countries to service external debt varies. It recognizes also that the terms on which different types of funds are obtainable to promote development vary. It considers, however, that most developing countries will need to receive development assistance on soft terms for a long time ahead, whether the judgment is based on their national income per head or their external financial position and prospects. The developing countries and some developed countries consider that, by 1975, the bulk of bilateral lending should be on terms comparable in general effect though not necessarily identical in all individual respects with the terms currently applied by the IDA, with suitable arrangements made to enable developing countries not now eligible to avail themselves of these terms to do so. The developed countries generally take note of these suggestions and agree to consider them in the further evolution of their lending policies.

4. The Conference stresses the importance of harmonizing the terms of assistance to individual countries; particularly but not exclusively in the case of countries for which multilateral co-ordinating arrangements exist. Further study should be given to the determinants of debt servicing capacity, with a view to establishing general criteria for settling terms for countries or groups of countries. Judgments on the terms to be offered should be made, where possible, on a case by case basis. Particular regard should be paid to the needs of the least-developed countries in determining terms. Some donor countries emphasize that the overall terms of aid of individual donors should be taken into account in this connexion.

5. Some donor countries point out that for them the volume of lending and the rate at which terms can be improved are closely connected, especially if the donor country has to provide at least part of its aid by raising funds in the private capital market, and to subsidize the rates at which they are lent to developing countries. They also point out that the problem is particularly acute in view of their relatively limited aid giving capacity.

6. The Conference considers that further study is necessary of possible improvements in techniques of lending, having to do among other things with conditions and schedules of repayments, and requests the IBRD to prepare such a study in consultation with the Secretary-General of UNCTAD and IMF. In particular the study should take into account the possibility of postponing or waiving interest and amortization payments in years of foreign exchange stringency. The results of this study should be presented to the next session of the Committee on Invisibles and Financing related to trade.

7. The Conference welcomes the increased availability of financial assistance for programme financing and stresses that external finance should be made available both for programmes and projects and should include local costs where necessary. Since development requires a continuous supply of external resources, individual donor countries should take such steps as they can to ensure such continuity.

Commercial credits including suppliers' credits

8. The Conference endorses the judgment in the Agreed Statement that commercial credits add to the flow of resources and can play a useful role, within limits, in promoting development. They are, however, no real substitute for long-term development aid.

9. It was noted in the Agreed Statement that four main questions arise:

- (i) to what extent should commercial credits be adapted to promote development as well as trade?
- (ii) how should its acceptance and use be controlled by both recipients and lenders?
- (iii) should the terms be softened, and what would be the implications for both aid and trade?
- (iv) should the question whether any new institutional arrangements are needed to alleviate harmful developments in the field of commercial credits be further studied?

10. The Conference invites the IMF to prepare a study on these questions, in consultation with member Governments, with the secretariat of the UNCTAD, the IBRD and other appropriate institutions. This study should be made available for discussion in the Committee on Invisibles and Financing related to Trade which will then decide whether to refer it to an intergovernmental group with equitable representation of developing and developed countries, or to deal with it in some other appropriate way.

11. The Conference further requests the United Nations Secretariat and the IBRD to continue, in consultation with other institutions, the study of commercial credit as a means of assisting developing countries to increase their exports and to finance trade with each other including ways in which facilities available to them might be strengthened and developed. Consideration should be given to the possibility of refinancing by international financial institutions of commercial credit extended by developing countries.

Indebtedness

12. The Conference recognizes the gravity of the problems of external indebtedness and acuteness of some of them, and the fact that such problems arise not only from official lending but also from commercial credit. It considers, first, that as was noted in the Agreed Statement, further analysis is required of the whole question of indebtedness differentiating between the various types of debt involved. These must not be judged in isolation but in relation to the debt-servicing capacity of the country concerned, its external trade and its rate of growth. The problem of indebtedness is also linked with the problems of terms and volume of aid.

13. Secondly, improved arrangements to forecast and forestall debt crises are clearly desirable.

14. Thirdly, since the first objective must be to prevent debt crises from arising, developing countries should undertake sound policies of debt management, while developed countries should help by providing assistance on appropriate terms and conditions.

15. Finally, where difficulties do arise, countries concerned should stand ready to deal reasonably with them within the framework of an appropriate forum, in co-operation with the international institutions concerned. They should bear in mind that some developing countries are carrying an excessively heavy burden of long term debt, having regard to their need to sustain an adequate rate of economic growth and that suitable measures should be adopted in appropriate cases to alleviate this burden. In other cases, situations of crisis may arise and arrangements to refinance or reschedule on appropriate terms and conditions may be required. Present institutional arrangements for dealing with such problems may require review when the analysis of the problems has proceeded further and the arrangements for forecasting situations have been further developed.

Tied Aid

16. The Conference, while recognizing that the causes and effects of tied aid need to be further studied, endorses the judgment on the effects of tying contained in the Agreed Statement. Tying restricts the developing countries' opportunities of benefiting from the price and quality advantages which normally accrue from a free choice of suppliers. This is particularly the case when restrictions are imposed not only as to the source of procurement of the goods but also as to the nature of the goods. Further tying tends to reduce the real value of aid inasmuch as the definition

and the choice of projects and of technology best suited to the requirements of the developing countries is limited. Some of these disadvantages may be mitigated if a country has the freedom of recourse to several sources of procurement or to a broad range of goods and services from one source. Furthermore, some tied loans are used for reimbursing import payments relating to contracts which have been obtained in open international competition.

17. The Conference therefore considers that, in principle, financial assistance should be untied. Many donors, however, find it necessary to tie their aid, mainly in order to protect their balance of payments or to secure public support for their aid programmes. The tying of aid is therefore to be directly related to the level of aid.

18. The Conference urges the developed countries to take what practical measures they can, individually or collectively, both to reduce the extent of tying and to mitigate any harmful effects. The Conference considers that in any case efforts should be made to mitigate harmful effects of tying. Practical steps might include:

- (i) A greater provision for the use of aid funds to cover local costs;
- (ii) the allowing of procurement in developing countries;
- (iii) a broadening of the range of commodities or services to which aid may be devoted so that recipients have reasonable freedom of choice;
- (iv) improvement in the administration of procurement;
- (v) a development of pooling systems under which contracts might be decided by international competitive bidding within a group of donor countries.

19. Developing countries also consider that double tying, that is, tying to sources of procurement as well as to specified products, should be eliminated except in the case of project assistance, and that donors should subsidize the excess cost of procurement resulting from tying practices. Developed countries are unable to accept the second suggestion and are not unanimously able to accept the first.

Access to capital markets

20. The Conference notes the concern felt by the developing countries over the question of access to capital markets by themselves and by multilateral development institutions, and invites the Secretary-General of the UNCTAD to seek the advice of the IBRD and the regional development banks with a view to its discussion by the Committee on Invisibles and Financing related to Trade.

Interest Equalization

21. The Conference notes the studies prepared by the Secretariat on the proposal for a multilateral interest equalization fund to cover the interest margin between loans obtained on international capital markets and concessional development loans. It notes, further, that the technique of subsidizing the rates at which funds raised on the private capital market are relented as aid is already practiced by a number of donors. It commends the technique to those who find it an appropriate means of achieving appropriately soft terms. The proposal for a multilateral scheme raises a number of problems. The Conference invites the Secretary-General of the UNCTAD to keep the matter under review and to report to the next session of the Committee on Invisibles and Financing related to Trade.

22. Annual progress reports in an appropriate form should be submitted and reviewed in terms of General Assembly resolution 1995 (XIX) and Trade and Development Board resolution 19 (II).

II IMPROVING THE MOBILIZATION OF INTERNAL RESOURCES

1. The Conference recognizes that the primary responsibility for their development rests with the developing countries themselves. While appreciating the efforts already made by the developing countries to mobilize and make effective use of their internal resources, the Conference considers that further efforts in this regard are essential for accelerating economic development in the developing countries. These efforts are also important for mobilizing public opinion in developed countries in support of their assistance programmes.
2. In the interests of rapid development, developing countries need both to mobilize internal resources as fully as possible and to ensure effective use of available resources, both internal and external. The Conference notes with satisfaction the continuing progress being made in development planning and the increasing recognition that effective implementation is an essential part of the planning process. Implementation involves a broad range of economic and social policies conducive to development. It also depends on the creation of the necessary institutions and on mobilization of public support and co-operation in developing countries.
3. The Conference recognizes that external resources can help to make possible full deployment of the resources and efforts of developing countries, and at the same time that well directed efforts by the developing countries are necessary in order for external resources to make their full contribution to development.
4. Countries which provide external resources in support of development are concerned that these resources should not replace but supplement and help to mobilize adequate domestic efforts and should be effectively used. The Conference acknowledges, however, that priorities, problems and possibilities differ between developing countries, and that the standards of effort which it is reasonable to expect depend on the circumstances of individual developing countries.
5. With these considerations in mind, the Conference stresses the importance of continuing frank and constructive exchanges between providers and recipients of external resources. The Conference notes with interest and experience gained in consortia and consultative groups, and also the establishment of certain mechanisms for mutual review and exchange of experience among developing countries. It recommends that attention should be given to the further development and extension of such arrangements.

6. The UNCTAD secretariat should continue its work on the relations between the rate of growth and the amount of aid received. Its studies should take account of alternative development targets, policies and standards of effort and external circumstances. They should seek to investigate any relevant implications of factors which may lead to limitation of absorptive capacity and evaluate the effects of alternative types of performance including the possibilities for useful import substitution.

III COMPENSATORY FINANCING FACILITY

The Conference notes with satisfaction that the International Monetary Fund has adopted measures for the liberalization of the Compensatory Financing Facility in response to recommendation A.IV.17 of the Final Act of the First UNCTAD. The Conference further notes that much more extensive use has been made of the Fund facility since its revision in September 1966. As the revised facility has been in operation only for about 18 months, further experience seems to be necessary before any further revision of the Facility is undertaken. The Conference, however, draws the attention of governments members of the IMF to the following suggestions made in discussion and refers them to the Fund for consideration in its continuing review of the Facility.

1. Adverse movements in import prices should render a developing country eligible for a drawing under the Facility;
2. Drawings on the International Monetary Fund under the Facility should be immediately available up to 50 per cent of the countries' quotas in the Fund and that such drawings should not be subject to any conditions;
3. The re-purchase liability in respect of outstanding drawings on the Facility should not arise within five years after the drawing and thereafter should fall due only in the years in which the countries' exports exceed the estimated trend value and should not exceed 50 per cent of the export excess.
4. The liability of the drawing country in respect of the interest charges on the outstanding compensatory drawings should be calculated separately from that in respect of ordinary drawings and that it should not attract the normal progressive interest provisions of IMF.

IV INCREASING THE FLOW OF PRIVATE CAPITAL TO DEVELOPING COUNTRIES

The Conference:

Recognizing the important role that private foreign investment can play in the economic development of developing countries by providing capital, technical services and know-how,

Bearing in mind that continuing systematic study concerning the structures of foreign investment and its economic effects in the developing countries is essential, if foreign investment is to make its optimum contribution to development,

Bearing in mind the efforts and measures of both developed and developing countries, as well as interested international institutions, to promote foreign private investment in developing countries,

Recalling recommendation A.IV.12 of the first United Nations Conference on Trade and Development,

Taking note of the report entitled "The Role of Private Enterprise in Investment and Promotion of Exports in Developing Countries" (TD/35 and TD/35/Supp.1),

Believing that in the interest of increasing the flow of private foreign investment to developing countries and improving its effectiveness, it is important that this matter should be the subject of a dialogue between developed and developing countries,

Taking note of Economic and Social Council resolution 1286 (XLIII) of 14 November 1967 which requested the Secretary-General Of the United Nations to consult with Governments and international organizations concerned on their experience and attitudes to the various problems discussed in the Secretary-General's report on Promotion of Foreign Private Investment in Developing Countries (E/4293) and on opportunities and means of implementing the specific recommendations contained in that report,

Taking note of General Assembly resolution 2091 (XX) and Economic and Social Council resolution 1201 (XLII) which calls on the Secretary-General of the United Nations to undertake thorough study of the manner, forms, conditions, costs and effects of the transfer of patented and non-patented technology from foreign enterprises to enterprises in developing countries (both public and private),

1. Requests the Secretary-General of the United Nations in carrying out these

tasks, in particular with a view to providing useful guidelines to both developing and developed countries with respect to foreign investment, to bear in mind inter alia the importance of the following considerations:

- (a) Criteria and practices employed by developing countries for the acceptance and promotion of foreign investment;
- (b) Developing countries' policies governing relative shares of foreign and host country investors in capital investment;
- (c) The forms of foreign equity participation such as cash investment, supply of machinery and equipment, provision of technical services and know-how;
- (d) Policies and practices governing foreign participation in management and training of management personnel in developing countries;
- (e) Investment opportunities and fields of investment for foreign enterprises;
- (f) Policies and measures of developing countries with regard to the use of patents and licences supplied by foreign enterprises;
- (g) Adequacy of existing business practices for transfer of technology to developing countries through patents and licences by foreign enterprises;
- (h) Policies applied by foreign enterprises with respect to goods and services produced by these firms;
- (i) Tax treatment of foreign investment, both in capital importing and capital exporting countries;
- (j) Practices of foreign enterprises as regards exports of products resulting from foreign investment and/or grant of patents and licences;
- (k) Re-investment undertaken by foreign enterprises from income earned in developing countries;
- (l) Policies applied by the developed countries with regard to the flow of private capital to developing countries and by developing countries with regard to the repatriation of capital and earnings;
- (m) The introduction of incentives by the developing and developed countries to encourage such flows;
- (n) Policy of developing countries towards employment of foreign personnel and imports of machinery and equipment;

2. Notes with interest that in accordance with resolution 2276(XXII) of the General Assembly, the Secretary-General of the United Nations is requested to

include in the regular report on the international flow of long-term capital and official donations such statistics as are available of reverse flows of capital from the developing countries, assessing their significance in relation to total financial transfers and giving an analysis of factors affecting them.

3. Further requests the Secretary-General to undertake a study of the economic effects of foreign investment, as outlined in Annex XIII of the Report on "Measurement of the flow of resources to developing countries." ^{1/}

The studies shall take into account:

- (a) The level of economic development of the developing countries;
- (b) Studies carried out by other agencies with respect to any of the items enumerated in operative paragraph 1. The studies shall, on the basis of their findings, also recommend policy measures and practices concerning foreign investment and transfer of technical services and know-how, and make any suggestions relevant to the purpose of the Study.

4. Recommends that these studies and reports be submitted to competent United Nations organs, including UNCTAD, for consideration and appropriate action at the earliest opportunity, including consideration of the appointment of a group of governmental experts for examination of the issues involved. They should also be brought to the attention of other interested international organizations, and through their respective governments, to non-governmental organizations concerned with private investment.

5. Expresses the hope that progress can be expedited in the study undertaken by the IBRD on multilateral investment insurance and requests the Secretary-General of UNCTAD to invite the IBRD to submit a progress report and any other relevant material which the Bank considers it appropriate to release to the next session of the Committee on Invisibles and Financing related to Trade.

^{1/} United Nations Publication Sales No.67.II.D.17.

V AID VOLUME TARGET

1. The Conference agrees that economic development entails mutually reinforcing efforts by developing and developed countries. It is appreciated that developing countries must and do bear the main burden for financing their own development. The developed countries, for their part, recognise their responsibility to provide increased resources to developing countries. The Conference stresses that, in view of the crucial role of external resources in helping to mobilise the domestic resources of developing countries, the efforts of developed countries in support of development should be further intensified.
2. The Conference accordingly recommends that each economically advanced country should endeavour to provide annually to developing countries financial resource transfers of a minimum net amount^{1/} of 1 per cent of its GNP at market prices in terms of actual disbursements, having regard to the special position of those countries which are net importers of capital.
3. The Conference recognises that the target should be regarded as an incentive to greater efforts to provide resources rather than as a ceiling or a suitable method for comparing the appropriate quantitative or qualitative development assistance efforts as between different economically advanced countries.

1/ Net financial resource transfers are defined as follows:

(i) official cash grants and grants in kind including grants for technical assistance but excluding grants for defence purposes; sales of commodities against local currencies exclusive of utilisation of such currencies by the donor country for its own purposes; government lending for periods exceeding one year net of repayments of principal; grants and capital subscriptions to multilateral aid agencies, and net purchases of bonds, loans and participation from those agencies

(ii) private capital on the basis of net long-term movements originating with residents of the capital exporting countries; they are thus net of repatriation of principal, disinvestment and retirement of long-term loans, portfolio assets and commercial debt. They are not net of reverse flows of capital originating with residents of less-developed countries, nor of investment income.

4. Some economically advanced countries have already met the target as defined above. They are prepared to endeavour to ensure that their net financial resource transfers are maintained and to envisage, if possible, an increase in them.
5. Several developed countries expressed the view that their progress towards the target is affected by their relative aid-giving capacity, and may, from time to time, be affected by certain temporary difficulties.
6. In the view of developing countries and one donor country this target should be achieved by 1972; some other donor countries stated that they were prepared to meet this target either by this date or at the latest by 1975; all the other donor countries do not feel able to accept a precise date.
7. The Conference recognises that official bilateral and multilateral flows are clearly required to meet many of the basic needs of developing countries. It is generally accepted that the resources which individual donor countries can provide differ widely in composition in view of the differences in their economic structure. The Conference recognises, moreover, that private funds have their role to play, and in order to meet the increasing needs of developing countries, these as well as official flows should be promoted. A number of developed countries stated that within the one per cent target defined above, they were prepared to attempt to provide a minimum of 0.75 per cent of its GNP by way of net official financial resource transfer^{2/}. One developed country expressed the view that this proportion should be at least half of the one per cent target. The other developed countries, even though they are not prepared to accept any precise ratio, believe that endeavours should be made to ensure that official bilateral and multilateral flows represent a substantial part of the totality of financial resources provided.
8. Annual progress reports in an appropriate form should be submitted and reviewed in terms of General Assembly resolution 1995 (XIX) and Trade and Development Board resolution 19(II)

^{2/} Net official financial resource transfers are defined in paragraph (i) of note 1/

VI SUPPLEMENTARY FINANCIAL MEASURES

1. The Conference reaffirms the objective of the proposal for Supplementary Financial Measures set out in Annex A.IV.18 to the Final Act of the first Conference. This states that "the new scheme should aim to deal with problems arising from adverse movement in export proceeds which prove to be of a nature or duration which cannot adequately be dealt with by short-term balance of payments support. Its purpose should be to provide longer term assistance to developing countries which would help them to avoid disruption of their development programmes."
2. Any measures ~~desired~~ ^{devised} to meet this need should, on the basis of appropriate criteria, which should, to the extent possible, be objective, provide reasonable assurance of help to protect a country's development plan or programme against the effects of export shortfalls, to the extent that they cannot be met by short-term balance of payments support.
3. The Conference expresses its appreciation of the Report prepared by the staff of the IBRD, and of the Reports of the IGG. These reports have defined the issues involved and clarified many of them. The Conference agrees that further work is required to resolve some outstanding issues. The principal issues are:
 - (i) The definition and method of assessment of reasonable expectations;
 - (ii) The scope, nature and acceptability of the understandings between the administering agency and individual participant countries on their development programmes and the policies to be adopted in order to carry them out;
 - (iii) The measures to be taken by countries applying for assistance;
 - (iv) The relationship between supplementary finance and the IMF Compensatory Financing Facility.

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

5. Some of the issues set forth in paragraphs 3 and 4 above would arise not only from consideration of the World Bank Staff Scheme but from consideration of other measures to meet the objectives of Part A of Recommendation A.IV.18, including those submitted to the Intergovernmental Group. Any additional proposals clearly responsive to the Recommendation should receive due attention, with the aim of working out the most effective measures possible.

6. The Conference decides:

- (i) to continue in existence the Intergovernmental Group suitably expanded;
- (ii) to request the Group to consider and attempt to resolve the issues set forth in paragraphs 2 through 5;
- (iii) in the light of the foregoing considerations to instruct the Group to work out measures for supplementary finance;
- (iv) to instruct the Group to report thereon to the TDB as early as possible, and no later than the ninth session of the Trade and Development Board;
- (v) to direct the Trade and Development Board to study and take early action on the findings of the Intergovernmental Group, taking account of any proposals for action in the field of international commodity policy which may be submitted to the Board of Governors of the IBRD and the IMF on the basis of the studies which they have requested to be presented to them at their next annual meetings;
- (vi) to instruct the Chairman of the Group to report on its progress to the seventh session of the Trade and Development Board.

VII. INTERNATIONAL MONETARY SYSTEM - ISSUES RELATING TO DEVELOPMENT
FINANCE AND TRADE OF DEVELOPING COUNTRIES.

1. The Conference recognizes the great interest of the developing countries in the satisfactory operation of the international monetary system so as to allow them to share the benefits of the continued expansion of the world economy.
2. The Conference notes with satisfaction the agreement reached during the annual meeting of the Board of Governors of the International Monetary Fund last September in Rio de Janeiro on an Outline to create Special Drawing Rights within the Fund, and the participation of the developing countries represented by their Executive Directors in the Fund in the negotiations that led to the agreement on the Outline. It stresses the importance of active participation of these countries in the operation of the new arrangements for Special Drawing Rights.
3. In view of the fact that, according to the Outline, the Special Drawing Rights will be distributed in proportion to member countries' quotas, the Conference invites governments members of the Fund to continue to give careful consideration to applications from developing countries for increases of quotas so as to enable these countries to benefit more from the facilities of the Fund.
4. The Conference recommends that the Secretary-General of UNCTAD, after consultation with the appropriate international institutions, review progress since the first Conference towards the reform of the international monetary system devoting particular attention to the needs of the developing countries in their trade with one another and the rest of the world, and, if he considers it necessary, that he should make to the Trade and Development Board in due course any suggestions which he may have for special study of this matter.
5. The developing countries stress the importance of the early activation of the Special Drawing Rights scheme.
6. During the last annual meeting of the Board of Governors of the IMF, the Executive Directors were also requested to review the rules and practices relating to the traditional activities of the Fund and to propose amendments in the light of such review. The developing countries recommend to governments members of the IMF that the IMF, in its operations and in considering possible changes in its rules and practices with regard to the use of and conditions attached to drawings, should not introduce any changes that would work to the disadvantage of the developing countries, and that any change should be in the direction of softening the terms and conditions applicable

to drawings by the developing countries. As a first step in this direction the IMF is urged to consider the extension of the repurchase period applicable to ordinary drawings by developing countries to seven to nine years.

7. With regard to the various proposals for forging a link between the creation of Special Drawing Rights and the provision of external development finance, the developing countries urge governments members of the IMF to consider at an early date the establishment of such a link.

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THIRD COMMITTEE
Agenda item 12GROWTH, DEVELOPMENT FINANCE AND AID
(SYNCHRONIZATION OF INTERNATIONAL AND NATIONAL POLICIES)World Bank Group mattersNote by the Chairman

The following text is submitted to the Third Committee for consideration:

1. The Conference expresses its appreciation for the work of the IBRD and its affiliates which have contributed greatly to the promotion of development and developing countries. The Conference notes with satisfaction the completion of negotiations for the replenishment of the resources of the IDA at a higher level. It also notes that the World Bank Group has continuously adjusted its activities to the needs of developing countries.
2. The Conference encourages governments of countries, members of the World Bank and its affiliates, to continue their support for the work of these institutions and recommends to those governments to advise their representatives in the competent organs of the IBRD and its affiliates to consider the following questions, while bearing in mind the need to maintain sound banking standards in order to safeguard the Bank's ability to borrow:

(a) that the Bank should devote as large a part as possible of its resources for assistance to developing countries;

(b) that the Bank should continue, in appropriate cases, to extend loans for purposes wider than the financing of individual projects and that it should consider, wherever necessary, the

- financing of local costs;
- (c) that the Bank should continue co-operating with regional financial institutions both in co-ordinating their operations and, where appropriate, in financing jointly projects of regional importance;
 - (d) that the Bank should extend, to the extent feasible, its coordinating services relating to particular countries, such as consultative groups;
 - (e) that the World Bank Group, as its President Mr. Woods suggested to the Conference, should be alert to the necessity for new approaches, for example in keeping under review the advisability of financing public and semi-public productive enterprises;
 - (f) that the IDA should explore the possibility of receiving trust funds in administration from various governments and institutions;
 - (g) that the activities of International Finance Corporation should be expanded in particular with regard to undertakings in developing countries and especially to projects which promote economic integration;
 - (h) that the IDA in distributing its funds should give particular attention to the least-developed among the developing countries.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

SecM68-63

FROM: The Secretary

March 14, 1968

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Attached for the information of the Executive Directors is a first report on the United Nations Conference on Trade and Development currently in session in New Delhi. The report has been prepared jointly by the representatives of the Bank and the International Monetary Fund who are attending the Conference and covers the period February 1-29. The report is also being distributed by the Fund to its Executive Directors.

Distribution:

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

Interim Report on the Second Session of UNCTAD, New Delhi
February 1-29, 1968

Prepared by the Fund and Bank Representatives

March 5, 1968

1. Plenary

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

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

Mr. Woods addressed the Conference on that same day, February 9. The text of his speech was circulated to the Executive Directors of the Bank under cover of SecM 68-34 dated February 9, 1968. The representative of the International Monetary Fund spoke on February 13 (the text of his statement is attached as Appendix I). The Conference also heard statements by the United Nations Under-Secretary for Economic Affairs, the Director-General of FAO, the representatives of UNDP, OECD, EEC, the regional commissions of the United Nations, the regional development banks, and various intergovernmental organizations.

The ministers representing the developing countries elaborated on one or another point of the Algiers Charter under its three main headings: Commodity Problems and Policies, Exports of Manufactures, and Development Finance. They mostly stressed the importance of buffer stock financing, the introduction of generalized preferences and the need for more aid, in particular through multilateral institutions. They mostly supported supplementary finance. Some advocated that tied aid should be repaid with tied exports. The creation of several new funds was proposed:

a diversification fund "from existing Bank resources" (Yugoslavia), an interest-equalization fund (Israel), a research fund for primary commodities (India). Finally, the role of private investment was mentioned by some speakers.

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

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

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

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

The great majority of the donors announced an intention to increase their contributions to IDA resources by sixty per cent. Most donors made reference to supplementary financial measures (SFM), generally in more or less constructive terms, while recognizing that there are still problems and that further discussions will be needed. France, Japan and the United States did not refer to SFM at all in Plenary. The references to aid matters by some, in particular by Sweden, Canada and the Netherlands, were encouraging. Several references were made to international monetary problems, including the introduction of Special Drawing Rights.

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

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

2. End February position

It can be said that at the mid-way point of the Conference, no tangible progress has been recorded except for consultations on shipping. For the most part the proceedings of all Committees and Working Groups consisted of general statements by delegates of their government's views. These general statements did not carry the subject matter further than the position at the start of the Conference and proved very time consuming. The developing countries based their statements essentially on the proposals contained in the Algiers Charter. The developed countries generally did not appear to regard the Algiers Charter as being a sufficiently realistic starting point for negotiations. To accelerate reconciliation on a wide variety of issues so-called "Contact Groups" were set up. Even these Groups are fairly large owing to the need for balanced geographic representation. Apart from shipping, no progress has been made so far in any of these Contact Groups. Even the Contact Group of Committee II on preferences, the first to be set up, seems to have reached a stalemate. It is evident that the real work of the Conference still remains to be done.

3. Organization of the Conference

- President: Dinesh Singh, India, assisted by 27 Vice Presidents
- Rapporteur: Jose Antonio Encinas del Pando, Peru.
- Committee I (Commodity Problems and Policies):
- Chairman: Djin Monar Gueye, Senegal
Vice-Chairman: Vladimir Rudolf, Czechoslovakia
Rapporteur: Yeo Beng Poh, Malaysia
- Committee II (Expansion and Diversification of Exports of Manufactures and Semimanufactures of Developing Countries):
- Chairman: K.W. Ryan, Australia
Vice-Chairman: Christopher Musoke, Uganda
Rapporteur: Akhtar Mahmood, Pakistan
- Committee III (Growth, Development Finance, and Aid):
- Chairman: Jacob Everts, Netherlands
Vice-Chairman: Lal Jayawardena, Ceylon
Rapporteur: Jose Antonio Palacios, Guatemala

- Committee IV (Problems of Developing Countries in Regard to Invisibles Including Shipping):
- Chairman: Luiz Paulo Lindenberg Sette, Brazil
Vice-Chairman: Krzysztof Dabrowski, Poland
Rapporteur: O. Heyman, Sweden
- Committee V (Trends and Problems in World Trade and Development):
- Chairman: Janos Nyerges, Hungary
Vice-Chairman: Erich Schmid, Austria
Rapporteur: Mohamed Zaki Shafei, United Arab Republic
- Working Group I (World Food Problem and Transfer of Technology):
- Chairman: Domingo Santa Maria, Chile
Vice-Chairman: Petre Tanasie, Rumania
Rapporteur: Jens Kristensen, Denmark
- Working Group II (Trade Expansion and Economic Integration among Developing Countries and Special Measures for the Least Developed Countries):
- Chairman: M.H.A. Onitiri, Nigeria
Vice-Chairman: R. Navaratnam, Malaysia
Rapporteur: M.D. Laloux, Belgium
- Working Group III (Special Problems of the Land-Locked Countries):
- Chairman: Mohammad Ali Aghassi, Iran
Vice-Chairman: Vladimir Pavera, Czechoslovakia
Rapporteur: Albert Mohate, Lesetho

4. Committee I

Committee I was set up to consider the agenda item "Commodity Problems and Policies", with the following subitems: (a) General discussion on the main elements of commodity policy; (b) Basic principles and guidelines for pricing policy designed to achieve the highest possible receipts from export of primary commodities; operation and financing of buffer stocks; (c) Role and financing of diversification programs; problems arising from the development of synthetics and substitutes; (d) Program for liberalization and expansion of trade in commodities of interest to developed countries.

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

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

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

Discussion on pricing policy centered around the four points made in the Algiers Charter, that "the main objectives of pricing policy should be: (i) elimination of excessive price fluctuations; (ii) the highest possible earnings from the exports of primary products; (iii) maintenance and increase of the purchasing power of the products exported by developing countries in relation to their imports; and (iv) that developed countries undertake to assist in achieving more stable and higher prices for unprocessed and processed commodities from developing countries by applying adequate domestic taxation policies." While developed countries had no objection in principle to the first two objectives, some of them questioned the validity of the third objective, warning against the stabilization of prices at levels which would discourage consumption or encourage the production of synthetics and substitutes. On the fourth principle, a small number of developed countries stated that they were in favor of steps to liberalize commodity trade but in general their comments were inconclusive.

On buffer stock operations and financing, developing countries recognized that buffer stocks were only one among various techniques of market stabilization. When such a technique was appropriate, international financial institutions should participate in the prefinancing of

buffer stocks. This point was repeated by each speaker from the Group of "77" with some variants, such as a suggestion that buffer stocks should be financed by grants from the IBRD and the IMF, or that the IMF should provide regular financing, as well as prefinancing, for buffer stocks. A small number of speakers suggested that consideration be given to modifying the statutes of international financial institutions in order to enable them to provide finance directly to buffer stocks agencies. The Chairman of the International Tin Council stated that it would be more effective and more economical to finance buffer stocks through a central international agency.

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

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

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

After concluding consideration of buffer stock operations and financing and of pricing policy, Committee I started discussion on the problems arising from the competition of synthetics and substitutes. The developing countries repeated the arguments set forth in the Algiers Charter and expounded in the Secretariat document (TD/8/Supp.1). The developed countries took the view that these problems were largely owing to technological progress and that nothing could or should be done to stop or to slow down that progress which, to some extent, was also beneficial to developing countries. The solution was to be found in increased productivity, trade promotion and research for new uses of raw materials and in the diversification of production. A proposal by India to create a special fund under the auspices of the UNCTAD, to expand research in the development of new uses for natural products, received wide support from developing countries.

The Committee devoted one meeting to the consideration of the report of the third session of the Study Group on Oilseeds, Oils and Fats, held at FAO headquarters in Rome, from February 12-13, 1968. The report mentions compensatory arrangements financed by levies or by budgetary funds as a possible technique of market stabilization for this group of products. The discussion was short and dealt only with procedural matters. The six delegates from developing countries who spoke proposed that UNCTAD should set up an ad hoc UNCTAD body to deal with oilseeds, oils and fats without prejudice to the work to be pursued by the FAO study group itself. However, this matter is not yet settled.

With respect to diversification, the developing countries generally followed the suggestion made by the UNCTAD Secretariat that high priority be given by existing sources of development finance, including the IBRD, to supporting the diversification plans of those countries faced with acute diversification problems. They also favored the establishment of specific diversification funds within the framework of an international commodity agreement, as in the case of coffee, and of a central diversification fund. All the developed countries rejected the suggestion of diversification funds, although they supported the principle of including such funds in specific commodity arrangements, as in the case of coffee.

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

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

A resolution introduced by France has not yet been considered either in Committee or in the Contact Group. It deals with the Bank/Fund study and with consultations to be initiated with a view to fostering the framing of international arrangements on specific commodities. The text of this draft resolution is reproduced in Appendix IV.

5. Committee II

Committee II is in charge of agenda items relating to the exports of manufactures and semimanufactures of developing countries to developed countries. The Committee's agenda consists of three topics: (a) Preferential or free entry of exports of manufactures and semimanufactures of developing countries to developed countries; (b) A program for the

liberalization and expansion of trade in manufactures and semimanufactures of interest to developing countries, and (c) Measures for the promotion, expansion and diversification of exports of manufactures and semimanufactures. The Committee has completed examination of the first of these items. Discussion was based on two documents, the Algiers Charter (Part II, Section B) and the Report of the Special Group of OECD on Trade with the Developing Countries. The first document lists the demands of the LDC's. The second sets out the position of the developed countries in regard to the general principle of a system of temporary nondiscriminatory, nonreciprocal, degressive general preferences for the export of manufactures and semimanufactures from developing countries. The following are the main points emerging from the discussion:

i. Product coverage

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

ii. Duration of the preferential scheme

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

iii. Extent of preferential duty reductions, safeguards and adjustment measures

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

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

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

iv. Special provisions for the least advanced developing countries

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

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

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

v. Existing and reverse preferential arrangements

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

Most developed, developing, and socialist countries favored the abolition of reverse preferences granted in the markets of some developing countries to some developed countries, while France, supported by some African countries, thought that they were of secondary importance and should be settled among the developed countries themselves.

vi. Other elements in the general system of preferences

Because of the shortage of time, and pressure to arrive at some agreement in the "Contact Group" on the basic issues which were discussed earlier, the Committee decided to consider as a unit the remaining elements involved in a general scheme of preferences. The exchange

of views on these topics (i.e. institutional arrangements, rules of origin, donor and beneficiary countries, action by countries with centrally planned economies and by developing countries, and implementation) was very general and there was little debate. There was general agreement that UNCTAD should supervise and review the operation of the general system of preferences, that the rules of origin should be subject to international understanding, and that all developed and developing countries should participate in the system.

6. Committee III

The following agenda items were taken up for discussion in the order indicated: (a) Increasing the flow of international public and private capital; (b) Improving the mobilization of internal resources; and (c) Improving the terms and conditions of aid, and alleviating the problems of external indebtedness.

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

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

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

Several spokesmen of developing countries recognized that the development of their economies was primarily their own responsibility; about three quarters or even more of the resources required for investment were raised domestically. At the same time, the development process would be facilitated by the transfer of resources from the richer countries. Currently, in their view, the inadequacy of external resources was a serious constraint on their development efforts.

A number of developing countries were facing a severe debt problem. The proportion of debt service to gross capital flows was high. Commercial credits, on rather onerous terms, as well as the tying of aid, were

compounding their difficulties. The developing countries unanimously urged the softening of aid terms, the regulation of suppliers' credits, the untying of aid, and the channeling of aid to a greater extent through multilateral institutions.

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

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

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

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

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

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

Charter. These questions were dealt with by the representative of the World Bank in a statement to the Committee on February 23 (see Appendix V).

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

7. Committee IV

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

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

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

The question of the establishment and expansion of merchant marines in developing countries also gave rise to divergent opinions. The improvement of shipping services, an equal voice in liner conferences, and contributions toward regional economic integration, were given as examples of the benefits that developing countries expected to derive from the expansion of their merchant marines. Developed countries expressed doubts

as to whether the establishment of national merchant marines would be the best way of solving the alleged difficulties faced by the developing countries in the field of shipping. They emphasized that this matter had to be considered on a country by country basis after completion of full feasibility studies.

International shipping legislation occupied six meetings of the Committee. Developing countries recalled the provision included in the Algiers Charter that, "UNCTAD II should include international shipping legislation in the work program of the Committee on Shipping." They argued that despite the multiplicity of international or intergovernmental or private organizations dealing with maritime law, and the variety of legal instruments in force, there remained large gaps in the existing legislation on matters of direct interest to developing countries, such as charter parties, bills of lading, marine insurance, and navigation in territorial waters. There was also a need for a uniform interpretation of existing conventions. The socialist countries felt also that UNCTAD should play a coordinating role in the field of shipping legislation and of maritime law.

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

The last part of the Committee's work on shipping was devoted to a progress report on studies by the Secretariat on port development and improvement. The Secretariat indicated studies were focussed on the optimum utilization of ports. Developed countries and socialist countries stated their readiness to continue to cooperate in those studies and to give technical assistance and training in the field of port operation and cargo movement. Representatives of some developing countries suggested setting up a special fund for port development and modernization, and urged existing international institutions (IBRD, IDA and regional development banks) to take a greater interest in this matter.

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

8. Committee V

Committee V, which was set up to consider agenda items under "Trends and Problems in World Trade and Development", has held 12 meetings and has

discussed two agenda items: steps to achieve a greater measure of agreement on principles governing international trade relations and trade policies conducive to development; and trade relations among countries having different economic and social systems, including problems of East-West trade, paying attention particularly to the trade interests of developing countries and taking into account work in this field by other United Nations organs, including the regional economic commissions.

In regard to the first of these items, developing countries voiced disappointment that the General and Special Principles adopted at UNCTAD I had remained largely unimplemented, although some progress had been made in the partial application of the principles of nonreciprocity in the Kennedy Round, and changes had occurred in the attitude of some developed countries with respect to the question of preferential treatment of manufactures and semimanufactures exported by developing countries. They urged that the Conference examine ways to implement the Principles adopted at UNCTAD I and to expand them.

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

On the question of East-West trade, the discussion was largely an exchange of views between the developing and the socialist countries. It was noted that, despite a rapid expansion in recent years, the volume of trade between these two groups remained small, and that only a few developing countries realized the benefit of the increased trading opportunities with the socialist countries. Developing countries expressed the view that the conclusion of bilateral trading arrangements with the socialist countries had helped to maintain a reasonable degree of stability in the volume and prices of the export of primary commodities. It was felt that the expansion of trade between the developing and socialist countries would be facilitated further if certain new measures were adopted by the latter. Some of the measures mentioned were the following:

1. The margin in the socialist countries between the import and sales prices of goods from the developing countries should be reduced to stimulate the consumption of these products;
2. The socialist countries should offer preferential access and preferential tariff treatment to imports from developing countries which are no less favorable than those offered by developed market economy countries;
3. Greater flexibility should be introduced in the multilateral transfer of bilateral balances;

4. The socialist countries should endeavor to increase imports of primary products from developing countries whenever these commodities are available at competitive prices;
5. In their economic plans, the socialist countries should systematically reserve a certain share of their markets for imports of manufactured and semimanufactured goods from developing countries;
6. The socialist countries should provide capital to finance private and public projects in developing countries and accept repayment in the form of commodities which are produced by these projects;
7. Socialist countries should refrain from reexporting goods imported from developing countries without the consent of the latter.

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

9. Working Group I

Working Group I (55 members) was established during the second week of the Conference to consider two agenda items: world food problems and the transfer of technology. Starting on February 26 it held four meetings under the Chairmanship of Mr. Domingo Santa Maria (Chile). Mr. Ojala, Director of the Commodities Division of FAO, made an introductory statement highlighting the main features of the world food situation.

The points discussed so far include: (i) domestic measures to be taken by developing countries to increase food production, including pricing policies and the production of farm inputs; (ii) aid to foster agricultural production, including fertilizers, pesticides and farm machinery; (iii) food aid; and (iv) protectionist agricultural policies of some developed members and their adverse effect on exports from developing countries.

Discussion is going on and four more meetings are to be devoted to this subject.

10. Working Group II

Working Group II, consisting of 55 members, was established on February 14 to consider two agenda items: trade expansion and economic

integration among developing countries, measures to be taken by developing and developed countries--including regional, subregional and inter-regional arrangements, special measures to be taken in favor of the least developed among the developing countries aimed at expanding their trade and improving their economic and social development. The Group held eight meetings during the last two weeks of February and heard statements from several national delegations and regional organizations on the two major topics under the first of these items, i.e., review of progress made and problems encountered in regard to trade expansion and integration among the developing countries, and international support action in the fields of commercial, financial and technical assistance.

Representatives of regional organizations, in describing briefly the history and accomplishments of their respective organizations, drew attention to some of the more common difficulties encountered in regional integration: a lack of adequate infrastructure; high tariff barriers against trade between countries in the region; fear of unemployment resulting from trade liberalization; existing preferential ties between some of the developing and some developed countries; inadequacy of reserves to take care of potential balance of payments difficulties arising from regional trade liberalization; and lack of external sources of funds to finance regional investment programs.

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

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

11. Working Group III

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

12. Organization

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

Address by Mr. Edgar Jones, Director, International Monetary
Fund Office in Geneva and Head of Fund Delegation to the Second
Session of the United Nations Conference on Trade and Development, New Delhi

February 13, 1968

Mr. Chairman:

The Managing Director of the International Monetary Fund greatly regrets that he is unable to be here at the Conference. Mr. Schweitzer's regret is, however, tempered by the knowledge that his duties in Washington, especially in regard to international monetary issues, are very closely related to the objectives for which this Conference was convened and more particularly to agenda item 12.

The first UNCTAD session held in Geneva four years ago stimulated wide interest in the prospects of overcoming the persistent problems confronting so many nations in their efforts to expand their trade and to attain a satisfactory rate of growth. By now UNCTAD is well established as a forum for the discussion of these problems and of possible ways of resolving them. The discussions which have taken place since the first conference, and which the Fund has followed closely, have helped clarify the problems and identify issues but progress meanwhile in improving the economic situation of developing countries has been disappointing. The impediments to progress are well known, population pressures on scarce resources, inflationary trends, continuing balance of payments difficulties and their accompanying constraints, underemployment of labor and underutilization of other resources and these need not be elaborated. International efforts to overcome them have not been as vigorous or as sustained as had been earlier hoped. It is evident that there is a need for an appreciable increase in the annual transfer of real resources to the developing countries. This need in large measure will have to be met through official grants and loans that will help such member countries strengthen their balance of payments situations on an enduring basis. This fact is made abundantly clear in numerous UNCTAD documents and is borne out by the Fund's own intimate experience of the economic problems of its member countries which are in the developing stage.

There is a need for an intensified and concerted international approach toward the removal of the remaining obstacles to the expansion of trade and development. In this connection the report of the Secretary-General of the UNCTAD to this Conference is a timely and important document. The role of the Fund in global efforts to create conditions conducive to the expansion of trade and development is well known to developing country members represented at this Conference. Our operations and policies cover both the special problems of each of the 107 member countries and more general problems including that of improving the structure

and stability of the international monetary system. In connection with the latter, the plan to set up international machinery for creating a supplement to existing reserve assets as the need arises is bound to facilitate whatever program of action is decided upon by this Conference. I shall refer later to this scheme.

Since the establishment of UNCTAD, the Fund has cooperated with the Secretariat, with the Trade and Development Board, and with the Board's four committees and specialized bodies. A short time ago a mission, composed of representatives of the countries which attended the meeting in Algiers, visited Washington. Our talks with them gave the Fund further insight into some of the problems and attitudes of the developing countries. In March 1967, when discussions on international liquidity were in an active but not yet final stage, the Fund's Executive Directors exchanged views with Dr. Frebisch and some members of the Expert Group on International Monetary Issues. The Fund looks forward to continuing such close collaboration with UNCTAD on those subjects in which the Fund has a direct interest and responsibility.

Mr. Chairman, the Fund is providing the Conference with copies of its Annual Report for 1967 to supplement the basic documentation. Delegates may be interested in more up-to-date information on the Fund's operations. In 1967, the twenty-second year of the Fund's existence, drawings made on the Fund amounted to \$835 million. Owing to substantial repayments net drawings outstanding declined from the peak of \$5.1 billion reached in mid-January 1967 to \$4.5 billion at the end of the year. Twenty-nine of the Fund's members, mostly developing countries, obtained the Fund's financial assistance in 1967. Some of those drawings were made under the Fund's facility for the compensation of export fluctuations. Since that facility was revised in September 1966 eleven countries--Burma, Ceylon, Colombia, the Dominican Republic, Ghana, Haiti, Iceland, India, Iraq, New Zealand and Syria--have benefited from it; by the end of 1967 drawings under the facility totaled \$220 million.

During 1967 the amount available to members under stand-by arrangements with the Fund increased from \$365 million in 1966 to \$1.8 billion, of which the major part represented an arrangement entered into by the United Kingdom to support the new par value for the pound sterling. After the sterling devaluation last November, fifteen other members adjusted their exchange rates after consultation with the Fund. It is a source of great satisfaction to us that the adjustments in exchange rates following the devaluation of sterling were limited in number and were conducted in an orderly manner in accordance with the relevant provisions of the Fund's Articles of Agreement, helping thus to minimize disruptions in international trade and payments.

The Fund also continued its annual round of consultations with individual members in 1967 and provided technical assistance on a variety of problems in fields related to the work of the Fund. These include advice

on the preparation and the carrying out of monetary, exchange and fiscal policies, the drafting of central banking legislation, the organization of central banks, and the development of financial statistics. As stated in our Annual Report for 1967, and I quote:

"The widening and consolidation of the Fund's facilities for providing technical assistance has reflected the growing needs of its member countries, particularly of its newer members who joined the Fund after becoming independent. For many of these countries, the difficulties of achieving rapid economic growth, the need to utilize the more advanced techniques of financial and economic control, and the general shortage of skilled and experienced economic administrators pose problems akin to those arising from the rather more widely publicized technological gap in science and industry. In endeavoring to meet the requests of its members, the Fund is providing a service which, though narrowly specialized, is crucial for the achievement of the broader aim of economic development."

Through its close relations with its member countries, the Fund has become well aware of the domestic consequences of fluctuations in the foreign exchange proceeds from exports of primary products, and we have always attached great importance to the search for means of mitigating the adverse effects of these fluctuations on development efforts.

The Fund's compensatory financing facility was conceived for that purpose, and was revised in September 1966 to take account, among other considerations, of statements made in UNCTAD Resolution A.IV.17. Copies of the relevant report have been made available to the Conference. Policy on compensatory drawings, as on other aspects of its operations, is kept under continuing review. The Fund, of course, is aware of the points made in this connection in the Charter of Algiers. With less than eighteen months of operation of the new facility it is felt, however, that more experience is needed before contemplating any further changes in its operation.

The Fund staff has participated in all the UNCTAD Group meetings on proposals for supplementary financial measures and is willing to continue to cooperate in any further discussions on this subject.

At the Fund's recent Annual Meeting in Rio de Janeiro, the Board of Governors adopted a resolution requesting the staff, in consultation with the staff of the IBRD, to study the problem of the stabilization of prices for primary products, its possible solutions, and their economic feasibility. The necessary staff work is under way and it is hoped to present a report to the Board of Governors at the 1968 Annual Meeting.

In the Fund's discussions with member countries a growing number of cases has been witnessed where a rising external debt service burden has disrupted the balance of payments. This debt burden has checked needed capital inflows, and severely impaired or halted economic growth. In some cases where the debt service has reached critical levels, the Fund has been requested to advise the member concerned on ways of easing the problems and, in response to requests from creditor and debtor countries has actively assisted the debtor and its creditors in negotiations designed to alleviate the immediate burden.

The problems posed by efforts to manage external debt on an orderly basis demand responsible action by borrowing countries, but they also involve the acceptance of responsibilities by the capital exporting countries; it is important that borrowers are not pressed by unrealistic short-term conditions of repayment or encouraged to incur excessive short-run obligations. Also it is important that the developed countries do not apply measures in dealing with their balance of payments problems which seriously impede the capital outflows so necessary for the sustained growth of the developing countries.

The relationship between foreign exchange policies and economic growth was discussed in Chapter 4 of the Fund's 1967 Annual Report. There it is stated that: "The Fund believes that policies aimed at achieving an enduring stability of the exchange rate at a realistic level--that is a rate that provides adequate incentives for exports while facilitating the maintenance of a liberal payments system--are essential to sound economic growth." Of course, implementation of the policies mentioned will often not be sufficient to sustain a desired rate of growth; there are many difficulties that cannot be directly resolved by fiscal or monetary policies alone. These difficulties relate to such matters as project implementation, upgrading the quality and increasing the quantity of domestic output, and gaining wider access to foreign markets for traditional exports and new export products. Nonetheless, without a realistic exchange rate supported by appropriate domestic policies, the attainment of a satisfactory rate of economic growth will prove to be most difficult.

At the Annual Meeting of the Fund's Board of Governors in Rio de Janeiro, the Board approved the Outline for a Facility Based on Special Drawing Rights in the Fund. In the many discussions and studies preceding this action, the views of UNCTAD and the Group of Experts on International Monetary Issues were fully considered and those views helped influence the presentation of such questions as the universality of the scheme and the choice of quotas in the Fund as the basis for the allocation of drawing rights.

It is now accepted that the special drawing rights will be available to all Fund members on a nondiscriminatory basis. They will be allocated among members according to Fund quotas. Participants will be

able to use their new rights freely, without policy conditions of any kind, but will be expected to do so only if they have a balance of payments need. All members will be fully represented in the making of the decisions as to the creation or the cancellation of special drawing rights.

Work is proceeding on the necessary amendments to the Fund's Articles of Agreement and when those are approved by the Board of Governors and subsequently ratified by three fifths of the Fund's member countries having four fifths of the total voting power, a mechanism will exist that may be activated as needed to counter any global insufficiency of reserves.

As in the past we shall follow closely the proceedings of the Conference for there are many items on the agenda of direct interest to the Fund. We stand ready to participate and cooperate on all discussions where the Fund can be of assistance. We in the Fund offer our best wishes for a successful session.

Statement by Arthur Karasz, Head of the Delegation of the International Bank for Reconstruction and Development, to Committee I at the Second Session of the UN Conference on Trade and Development, New Delhi

March 1, 1968

Mr. Chairman:

I would like to be allowed to discuss two interdependent subjects in this statement; in the first part of this statement, which will be very short, I would like to clarify some elements of the problem of diversification as related to the commodity problem in general; in the second part, I would like to inform the Committee about the present status of the study being prepared in the Bank on the basis of the so-called Rio Resolution.

We have listened with great interest to the discussion in this Committee of the commodity problem. So far, the Bank's approach to its solution has been through assisting the diversification of the economies of the developing countries. Indeed, diversification is of paramount importance for all countries having a dependence on primary commodities, and we agree with the view that it is needed even in countries which have a high per capita income but derived from the export of a single commodity. But diversification is a complex and long-term problem. It seems to me not to be appropriate at this stage to go into the discussion of the economics of the process. I think, however, it will be useful that I state also in this Committee that the Bank in its existence of over twenty years has contributed to diversification by using most of the amount of over \$10 billion it has lent for improving the economic infrastructure of its members.

The Bank is particularly well placed in view of its wide field of action and its cooperation with institutions like FAO to watch for the necessary harmonization of diversification programmes to which the secretariat has rightly called attention, that is to avoid diversification away from surplus product into the production of another surplus commodity. The Bank is also cooperating with the ICC, and some other international institutions, to study possibilities of further cooperation on this subject.

Now to turn to my second subject. As the Committee very well knows, the Bank is presently engaged in a major review of the entire problem of commodities: on the basis of the Rio Resolution of last September, whose text has been circulated in Committee III as Document TD/II/C.3/L.4, the Bank and Fund staff have started work, a very intensive work indeed, on

the question put to them in Rio: we were requested to examine the possibilities of Bank Group assistance to commodity stabilization schemes should adequate resources be available.

The work is now in progress and the intention is to complete it, if possible, early enough to permit its consideration by the Governors of the Bank at the Annual Meeting to take place next October. I am in complete agreement with the statement made by the distinguished representative of IMF that it is quite impossible to predict, at this early stage, what the conclusions of the study by the Bank will be; this also goes for the question put to us several times on the subject of the financing of buffer stocks, as well as for all the other elements of this very important problem.

Mr. Chairman, we have been requested by several speakers to transmit the study to UNCTAD. We appreciate the interest expressed in this Committee for our forthcoming study and I am authorized to inform you that it will be submitted to UNCTAD after its consideration by the Board of Governors of the Bank.

Statement delivered by Fund Representative in Committee I
and Committee III at the Second Session of the UN
Conference on Trade and Development, New Delhi

March 1, 1968

Mr. Chairman:

In our last annual meeting held at Rio de Janeiro in September 1967, our Board of Governors adopted a resolution asking the Fund staff to study in consultation with the IBRD staff, the problem of the stabilization of prices for primary products, its possible solutions and their economic feasibility. I assume that delegates are familiar with the resolution.

The work is now in progress. According to arrangements worked out between the staff of the Fund and the Bank, the study will be divided into two parts. The first part will be prepared jointly by the staff of the two institutions. It will be based on a discussion and evaluation of various possible solutions to the problems of commodity prices that have been suggested so far. The second part will discuss the possible role that the Fund could play in the solution of these problems. The latter will be prepared by the Fund staff in close consultation with the Bank staff.

The study once completed will be submitted to the Executive Directors who after examination will transmit it, with such comments or recommendations as they may have, to the Board of Governors for consideration and appropriate decision. The staff has been instructed to proceed on the working assumption that it would be highly desirable to finish the report at an early enough date to permit consideration by the Governors at the 1968 Annual Meeting to be held in October although the resolution does not make it obligatory to have a study ready by then. It states "if possible at its next Annual Meeting."

It will be readily appreciated by this Committee with its knowledge of procedures in the UN family, that the Fund study cannot be made available to any other UN organization for consideration before the Executive Board has opportunity to discuss the study and to make whatever recommendations it deems necessary to the Board of Governors; nor can it be considered by other bodies until the Board of Governors has had opportunity to consider the views of the Executive Board. Apart from the procedural question the timetable is too short to produce any progress reports.

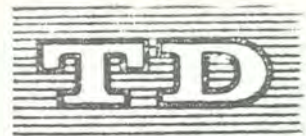
In the Commodity meeting of 1st May I made a statement to the effect that the Fund would wish to take into account relevant aspects of the financing problems involved in possible international commodity arrangements. This consideration has since been overtaken by the mandate of the Board of Governors of last September to produce a study on the stabilization of prices of primary products. For this reason the Fund staff is not in a position to undertake a separate study of financing of buffer stocks for

submission to the Executive Board; nor could the Board consider this question before considering the basic study now being prepared. It is not possible to anticipate at this early stage, Mr. Chairman, what will be the outcome of the study by the Fund.

On the nature of the study I quote from Mr. Schweitzer's concluding remarks at the Rio meeting of last September:

"In our study we shall, as requested in the Resolution, consult with the Bank. We also expect to benefit from the fact that a great deal of important work in this area has been done, and is currently going on, in other international bodies, such as UNCTAD and FAO.

"In approaching the subject of price stabilization for primary products, one cannot be unaware of the discrepancy between the attention paid to this problem over the last 20 years and the paucity of workable solutions that have emerged. In recalling this fact, I do not want to create the impression ~~that~~ I am underrating the value of new and intensified study in this field by the staffs of the Bank and the Fund; but I do think that Governors should be reminded that there is no easy road toward fully satisfactory solutions of the problems related to the instability of commodity prices."



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First Committee
Agenda item 10(b)

MAIN ELEMENTS OF COMMODITY POLICY INCLUDING INTERNATIONAL COMMODITY
AGREEMENTS AND OTHER TECHNIQUES OF COMMODITY MARKET STABILIZATION

STABILIZATION OF COMMODITY PRICES

Draft resolution submitted by the delegation of France

The Second United Nations Conference on Trade and Development,

Reaffirming the importance and urgency of so adjusting commodity trade as to make available to the developing countries the external resources of which they stand in grave need,

Recalling the recommendation adopted at its 1964 session concerning "international commodity arrangements, removal of obstacles and expansion of trade" (Annex A.II.1 of the Final Act of the First Conference),

Gravely concerned by the inadequacy of the practical steps taken to improve international commodity trade conditions, and particularly by the fact that since UNCTAD's first session no new agreement has been concluded on commodities of interest to the developing countries,

Noting the resolution on commodity price stabilization adopted by the Board of Governors of the IBRD and of the IMF at its Rio de Janeiro session in September 1967,

Having taken cognizance of the provisions of the Charter of Algiers (TD/38) concerning "commodity policy",

A

(1) Calls the attention of IBRD and IMF to the importance it attaches to the study requested of them in the above-mentioned resolution;

(2) Expresses the hope that these agencies will be able to participate actively in the elaboration of suitable mechanisms involving balanced commitments on the part of the producing and of the consuming countries and devote the necessary resources thereto;

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(3) Emphasizes the importance of assistance from them, especially in helping to solve certain financing problems, such as buffer stocks, and providing long-term backing for the diversification efforts deemed necessary;

(4) Requests IBRD and IMF to transmit the study to UNCTAD, the body responsible for the framing and implementation of an international policy on commodities.

B

(1) Invites the Secretary-General of UNCTAD to make representations to the Government's members of the 1967 United Nations Cocoa Conference with a view to the solution of outstanding problems, and requests the Chairman of the Executive Committee of that Conference to convene it as soon as possible, and at all events before the end of May 1968;

(2) Notes the convening by the Secretary-General of UNCTAD of a conference on sugar;

(3) Invites the Secretary-General of UNCTAD to initiate without delay, in co-operation with the competent international agencies and organizations, the consultations required for the framing of international arrangements on commodities to be decided upon after discussion in the Committee, bearing in mind those mentioned in the Charter of Algiers and to report to the Trade and Development Board on the subject at its September 1968 session;

(4) Invites the Secretary-General of UNCTAD also to report, similarly and at the same meeting of the Board, on the measures which might be envisaged for the following commodities of interest to the developing countries; commodities to be decided upon after discussion in the Committee, bearing in mind those mentioned in the Charter of Algiers, and also phosphates and tropical timbers.

Statement by Arthur Karasz, Head of the Delegation of the
International Bank for Reconstruction and Development, to
Committee III at the Second Session of the UN Conference
on Trade and Development, New Delhi

February 23, 1968

In the course of the last two weeks, a number of questions have been raised in Committee III relating to matters which are of interest to the World Bank.

The distinguished representative for Yugoslavia mentioned the decision by the World Bank concerning the allocation in fiscal 1967 of \$10 million for the purposes of IDA. He raised the question whether it would not be wiser for the World Bank to maintain the transfer from the Bank earnings to IDA of higher amounts as took place in the fiscal years 1964, 1965, and 1966.

This matter was already discussed at the last meeting in Geneva of the Trade and Development Board where I explained the Bank's position, as reproduced in document TD/B/SC.7/L.4.

In the following I shall just repeat some of the background information contained in that document on the sources which provide the funds for the Bank's lending operations. There are two such chief sources:

- (1) one is the paid-in capital of the Bank, paid in by its members;
- (2) the bulk of the amounts the Bank uses is money borrowed on the market, most of it through the sale of obligations. In short, the Bank lends mainly borrowed money.

This is the principle, and it would be quite simple were not practice a little more complicated than that. If Bank lending depended only on its ability to borrow, the Bank would have no difficulty in raising money, because the Bank's creditworthiness is considered everywhere as first class.

However, Bank borrowing does not only depend on its creditworthiness; essentially it depends on the state of the capital market. Further, the Bank is only allowed to go to a market if the government agrees to it.

The Bank must plan ahead the way its lending operations will be carried out in future years. In simple terms this means that the amounts committed by the Bank must be at disposal in liquid form at the moment they are needed because the borrower is not helped with mere promises, he needs money to pay for his project.

In recent years, part of the Bank's net income was transferred each year in favor of IDA. The policy statement on this subject contained, however, the provision that future transfers would only be made out of the year's net income not needed for allocation to reserves, or otherwise required to be retained in the Bank's business and which could therefore be prudently distributed as dividends.

This does not seem to be the case now. Although, I repeat, the situation of the Bank as a potential debtor has remained as good as ever, for considerations which lie outside the Bank, the member governments do not find it always easy to authorize the issues of new bonds on their markets. I do not mean by this that in recent times the Bank has not received any authorization from the governments to issue new bonds: on the contrary, in the course of the last year or so we have been authorized to make new and very important issues on the New York market, others in Canada as well as in several Western European countries. We are also hopeful that new issues would soon be authorized on both sides of the Atlantic Ocean. This would be very useful and allow us to be more certain that we can raise the needed funds on time in order to meet the disbursement commitments and maturing public debt of the Bank.

As the Bank's undisbursed commitments--as at the end of the fiscal year 1967--were almost \$2.4 billion, the President of the Bank estimates that to meet disbursement commitments and maturing public debt of the Bank at the least \$400-\$500 million new funds would be needed, I emphasize the words "new funds", yearly, for the next two years. This is a big amount of money and under present tight money market conditions it might become difficult to raise all of it against bonds. That is why the Executive Directors decided to recommend to the Governors, to allocate current income of the Bank with the exception of \$10 million to the Supplemental Reserve of the Bank, thereby reducing correspondingly the need for bond issues.

I am authorized to add that this action taken by the Board does not establish a precedent for the future. If and when the access to money markets becomes again easier, we are hopeful that our Board can recommend transfer of more important amounts to IDA out of the then current income of the Bank.

As for the replenishment of IDA, Mr. Chairman, I am authorized to report to the Committee that active negotiations are continuing on this subject. We have every reason to expect that agreement will be reached and transmitted by the Executive Directors of the Bank to the Board of Governors within the next month of March providing for a replenishment on the basis of a 60 per cent increase and with completely untied funds.

Several representatives have suggested that the World Bank become a development bank for developing nations exclusively. In fact, that is virtually so. Over the years, the major part of World Bank loans have been made to developing countries, lately there have been few loans only

to developed countries and the proportion of loans to the developed countries has declined. Therefore, for all practical purposes, it can be stated that the Bank is at present almost exclusively a lending agency for developing nations.

The idea has also been submitted that certain loans which had been granted be prepaid by the borrower and that amount be used for IDA purposes. The Bank cannot require prepayments unless such a condition is contained in the loan agreement. It is also evident that amounts resulting from any prepayment of a Bank loan could not be used by another institution, in this case by IDA.

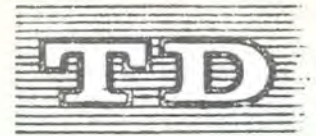
Another potentially important subject is the furthering of private investment in the developing countries. As the Committee knows, the Bank's activity in this field can be divided into two parts:

- (1) The Convention on the Settlement of Investment Disputes between states and nationals of other states came into force in October 1966. This Convention set up the International Centre for the Settlement of Investment Disputes, ratified already by a number of states, which machinery provides facilities for the settlement of investment disputes by voluntary recourse to conciliation or arbitration, or both.
- (2) Another proposal for facilitating private foreign investment is the draft of Articles of Agreement of an International Investment Insurance Agency. Following the work done first by the OECD, and in response to a request by UNCTAD I (Recommendation A IV 12), the staff of the World Bank have prepared a draft scheme with a view to providing essentially the same protection to private foreign investors against noncommercial risks that is presently available under certain individual national programs. The World Bank staff's draft scheme has been submitted to the member governments through the Executive Directors of the Bank who are considering the scheme.

Several speakers as well as the Algiers Charter mention the World Bank family's attitude toward public industrial enterprise. In this respect the following can be stated. The World Bank and IDA operations have been directed in the main to infrastructure investments in developing countries: these are largely through the public sector. Not so for the International Finance Corporation which is instructed by its Charter to invest only in enterprises that are predominantly private in character; the World Bank lending to manufacturing enterprises, for an amount of about one billion dollars, has also gone to private companies. To quote from a statement by Mr. George Woods, President of the World Bank, to ECOSOC on March 26, 1965: "We have been reluctant to finance State-owned industrial enterprises primarily because of the great difficulty of assuring that they would be managed on a business-like basis, free of political pressures." Mr. Woods continues, however: "We are quite aware, nevertheless, that in some of our member countries, and

especially in the newer ones, a shortage of private savings and of industrial entrepreneurship harshly limits what purely private capital can accomplish. We are therefore embarking upon a re-examination of our policies as applied to such cases to see whether there are ways other than through completely private ownership, in which effective management of industrial ventures can be assured." Mr. Woods mentioned similar ideas in his recent address to the Plenary Meeting of our Conference. Thus, the Bank is willing to consider the financing of government-owned manufacturing enterprises provided the project is well prepared, economically justified and soundly managed. An instance of this is the recent loan by the Bank in January 1967 of \$30 million, in association with the European Investment Bank, for a potash project in the Congo (Brazzaville). The loan was made to the Compagnie des Potasses du Congo, a Congolese company established in 1964 by the Congolese Government and a French syndicate largely consisting of French government agencies.

The need for coordination activities, and in this respect the Bank's activity in the creation of consortia and consultative groups, has been mentioned by several speakers. As is well known, in addition to the India and Pakistan consortia, the World Bank has organized consultative groups for several developing countries. The Bank also participates in similar meetings held under the auspices of other organizations. The role of the Bank in the aid coordinating effort is to collect and furnish necessary data and to provide a realistic assessment of a country's prospects and performance. By its very nature this is a rather difficult and delicate work, but the advantages of such coordinated aid over uncoordinated bilateral aid are being increasingly recognized. For the present, the Bank intends mainly to improve the working of existing coordinating groups, while continuing to explore possibilities for setting up additional groups.



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United Nations Conference on Trade and Development

Second session
FOURTH COMMITTEE
Agenda item 13(d)

CONSULTATION MACHINERY IN SHIPPING

Establishment of Consultation Machinery in the field of shipping

Draft resolution submitted by the Chairman

The Conference:

Recalling the "Common Measure of Understanding on Shipping Questions" (Annex A.IV.22 of the Final Act of the first session of UNCTAD) in which it was agreed that effective machinery should be established for consultation between the liner conference and the shippers' organizations serving each country;

Endorsing the resolution adopted by the Committee on Shipping at its 25th meeting on 24 February 1967 (TD/B/116/Rev.1 Annex 1(a)) and endorsed by the Trade and Development Board at its fifth session (A/6714, part one, para.135) inviting the governments of the developing countries to encourage the establishment of consultation machinery in accordance with the special needs and requirements of individual countries and also inviting the governments of countries with experience in such consultation to co-operate with the governments of the developing countries in the establishment of shippers' councils or equivalent bodies and consultation machinery and further drawing the attention of the governments of the developing countries to the possibility of obtaining technical assistance and guidance regarding the establishment of shippers' councils and consultation machinery from the United Nations;

Noticing that the progress made in this direction has not been appreciable;

Recognizing that consultation between shippers and shipowners is essential, in their mutual interest;

Considering the necessity of tariffs and other relevant notices being made available freely to all concerned in order to enable meaningful consultation;

Appreciating the secretariat's exhaustive report on Consultation Machinery in Shipping (TD/B/C.4/20/Rev.1, TD/13);

Bearing in mind the role that the Regional Economic Commissions can play in the field of shipping and their close and continuing awareness of the conditions and problems related thereto in their respective regions (TD/66/Supp.1).

Recommends,

1. that the Governments of member states of UNCTAD should urge liner conferences and equivalent organizations, directly or through the ship-owners members of them;
 - (i) to recognize shippers' councils or equivalent bodies and co-operate in the establishment and effective functioning of appropriate consultation machinery according to the special needs and requirements of each country or group of countries;
 - (ii) to make suitable arrangements for authoritative representation in the countries or groups of countries having consultation machinery and hold prompt and regular consultations;
 - (iii) to make provisions in their constitution or working arrangements to the effect that they would discuss with Shippers' Councils or equivalent bodies, questions pertaining to freight rates, conference practices, adequacy of shipping services, and other matters of common interest within the consultation machinery of the country or group of countries concerned;
 - (iv) to make their tariffs and other relevant notices on request available freely to all interested parties, as well as to the UNCTAD secretariat insofar as such information is required in relation to studies contained in the UNCTAD work programme;
2. that the secretariat of the UNCTAD provide, within available resources and consistent with the resolution of the Committee on Shipping dated 24 February 1967 (paras. 6 and 7) and within the framework of UNDP and the United Nations regular programme of technical assistance and in co-operation with the regional economic commissions, substantive support and guidance with respect to member countries' requests for technical assistance towards the establishment and effective administrative and technical operation of consultation machinery and shippers' councils; and also, where appropriate, advise governments;
3. that the Governments of member states of UNCTAD should whenever they consider it necessary inform the UNCTAD secretariat and the appropriate regional economic commission of their experiences in the establishment and functioning of the aforesaid consultation machinery and request the circulation of this information by the UNCTAD secretariat to all member states of UNCTAD.

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SecM67-311

FROM: The Secretary

November 30, 1967

STUDY ON SUPPLEMENTARY FINANCING

Attached for information is a report on the Final Session of the UNCTAD Intergovernmental Group on Supplementary Financing, held from October 30 to November 13, 1967 in Geneva. The report has been prepared by the Bank delegation to the UNCTAD meeting headed by The Economic Adviser to the President.

Distribution:

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

The Final Session of the Intergovernmental Group on Supplementary Financing,
Geneva, October 30-November 13, 1967

1. The Intergovernmental Group, appointed by the Committee on Financing and Invisibles of the UNCTAD to "study and elaborate" the Bank staff scheme on supplementary financing, met in its third and final session in Geneva from the 30th October to 13th November, 1967. All the fourteen members of the Group (viz. Argentina, Brazil, Ceylon, Germany, France, Ghana, India, Japan, Poland, Sweden, U.A.R., U.K., U.S.A. and Yugoslavia) as also a number of observers (33 in number) were present. Mr. Mermolja of Yugoslavia was the Chairman of the Group and Mr. Jo Saxe of the United States its Vice-Chairman - cum-Rapporteur. The Bank staff was represented by Mr. Irving S. Friedman, Mr. N.A. Sarma and Mr. Bimal Jalan. The Fund was represented by Mr. Edgar Jones and Mr. Isobe of the Fund's Geneva office.
2. This final session was given mainly to drafting and approving the report of the Group on the Bank staff scheme. The report is being forwarded directly to the UNCTAD II in New Delhi.
3. The developing countries and some developed countries expressed support for the Scheme. A few developed countries have not as yet taken a position on the Scheme. One country indicated opposition. In view of the generally favorable attitude taken by most members of the Group, it is expected that the UNCTAD II will take concrete action on this proposal.
4. The less developed countries have also distributed to the Group a joint statement of their position on supplementary finance: this is referred to at page 1 of the Report and is to be circulated to UNCTAD II participants as a conference document. The text of this statement is enclosed. This statement strongly endorses all the essential characteristics of the Bank staff scheme. The statement also notes that "the working out of a supplementary financing scheme should not interfere with IDA replenishment since financial obligations under the scheme could not arise for some considerable time ahead."
5. The Report of the Group is in five chapters. Chapter I is "Introduction"; the first part of this deals with the terms of reference of the Group, and the second part with the General Assessment of the Scheme. Chapter II, which constitutes the bulk of the Report, deals with the Bank staff scheme and sets out the results of the Group's discussions on various aspects of the scheme. The discussion is organized under three sub-heads: section (a) briefly indicates the Bank staff views on each of these aspects; section (b) notes in some detail the comments expressed within the Group about features of the Scheme; and section (c) presents the conclusions which most of the members of the Group reached on each of these points. Three principal

points are: cost of the Scheme, prior policy understandings and export projections as essential elements of the Scheme. On Costs, the conclusion of the Group reads, "It was widely agreed that the estimate of \$300-\$400 million per year of the World Bank staff provided the basis for arriving at a figure with which Scheme might reasonably be expected to operate successfully in the initial period." The conclusion on Policy Understanding expresses general agreement "that a policy understanding should be part of the Scheme." The scope, the nature and the implementation of the policy understanding require further discussion; however, "most members also agreed that it should include export projections and a statement of the country's basic economic policies," and "it was generally agreed that consultations might be broadly along the lines of those conducted by international financial institutions." On export projections, most members of the Group agreed that "this would be an essential element of the Scheme, however amended."

6. Chapter III is a short one dealing with the question of the administering agency. It states that "there was general agreement in the Group that the creation of a new agency for the administration of the Scheme would be unnecessary, uneconomic, and would create considerable complications, and that among the existing international agencies the World Bank Group would be the most appropriate. It further agreed that the Scheme should be administered in close cooperation with the IMF. The specific arrangements which would be necessary would require further consideration." However, it may be noted that since the Report is addressed to the UNCTAD II for consideration by governments there, no action by the World Bank Group is requested.

7. Chapter IV is called "other proposals for avoiding the disruption of development programmes" and is divided into three sub-heads. (A) deals with a suggested alternative to the Bank Staff Scheme. Under this suggestion the scheme would be operated on an ad hoc basis without the need for export projections and any prior understanding on policy matters; section (B) suggests a scheme for refinancing of the IMF drawings; and section (C) deals with the proposal for organization of markets. Each of these proposals is followed by extensive comments representing the views of most members of the Group, and also a paragraph on each to the effect that "the suggested alternative found little support in the Committee." Most members thought that none of these suggestions would adequately meet the objectives of the UNCTAD Recommendation A.IV.18 on supplementary financing. Chapter V deals with organizational matters, e.g. adoption of the agenda, attendance, etc.

8. The Report is now being printed for distribution, and will be circulated to the Executive Directors as soon as it is made available.

Joint Statement of Developing Countries
Members of the Intergovernmental Group
on Supplementary Financing

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

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

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

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

3. The scheme should embody the following elements:

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

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

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

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

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

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

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

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

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

SecM67-165

FROM: The Secretary

June 15, 1967

INTERNATIONAL DEBT RESCHEDULING ACTIVITIES

The attached paper on "Rescheduling or Consolidation of External Debt" was prepared in the Economics Department at the request of UNCTAD. It is being circulated to the Executive Directors to whom it is believed that it will be of interest.

Distribution:

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

RESCHEDULING OR CONSOLIDATION OF EXTERNAL DEBT

1. There have been no cases of rescheduling or consolidation of external debt as an outgrowth of the activities of consortia or consultative groups which function under the chairmanship of the World Bank. The over-all debt problem of India, however, is at present under international consideration. Countries which have arranged for such rescheduling or consolidation in recent years include Argentina, Brazil, Chile, Ghana, Indonesia, and Turkey. Except for Turkey, the arrangements have been made through informal meetings with groups of creditors. Meetings for Ghana took place in London, while other meetings were held in Paris. The arrangement for Turkey has been carried out within the consortium for external finance assistance to that country which operates under the chairmanship of the OECD.
2. In general, the meetings of the debtor countries with the creditors in Paris have been held on an informal basis, with the French Government acting as host and its Ministry of Finance carrying out secretariat functions to some extent. The pattern has been for basic principles guiding the debt relief to be agreed to at these meetings and finalized in later bilateral agreements between the debtor country and individual creditor countries. The relief that has been afforded generally has consisted of postponement of debt service payments due in the immediate year or two ahead, with an expression of willingness on the part of the creditors to review the situation at the end of these periods to consider whether any additional relief be necessary. In the majority of the cases the repayment has been deferred in such a way that a three-year period of grace is allowed and the repayment is then effected over a period of five years thereafter. Various commitments are undertaken by the debtors with respect to policies that they will follow in general management of their economies and more specifically in external debt management, especially providing for limitations on the extent to which they will assume additional medium-term indebtedness. Arrangements are made for the debtor country to supply certain information with respect to the carrying out of their commitments through the International Monetary Fund.
3. The external debt relief provided to Turkey under the OECD consortium was somewhat more liberal in its terms. The maturities whose payment was deferred covered a somewhat greater number of years, consisting of at least the subsequent three years and in some cases the subsequent five years. Furthermore, the repayment of the amounts deferred was to take place over longer periods ranging from about five years to fifteen years.

4. Some particulars of the terms of the reschedulings or consolidations are given below for each of the six countries.

Argentina

5. Argentina entered into an agreement in June 1965 with a group of its bilateral creditors under which the creditors were to provide certain amounts of assistance during the year to enable the country to meet its debt service obligations. The participating countries, whose representatives met with Argentina in Paris under the auspices of the "Paris Club" of creditors, were Federal Republic of Germany, France, Italy, Japan, the Netherlands, Switzerland, the United Kingdom, and the United States. The other members of the "Paris Club" besides these participating countries are Austria, Belgium, Norway and Sweden. The principles agreed to in this meeting were to be made effective through subsequent bilateral agreements between Argentina and each of the creditor countries. New loans to Argentina were to be granted to cover service payments amounting to 60 per cent of the maturities due in 1965 on commercial credits publicly guaranteed in the creditor countries and on official credits granted for specific purposes. Certain previously rescheduled external debt was excluded from the arrangements. The amounts to be made available to permit Argentina to meet its 1965 service obligations were to be repaid over a period of five years: 15 per cent during the first year, 20 per cent during each of the succeeding three years, and 25 per cent during the fifth year.

6. Argentina had previously entered into other debt rescheduling agreements in 1962, 1961, and 1957 under the same auspices. In 1962 certain amounts due in 1963 and 1964 on account of suppliers' credits were rescheduled, so as to be paid out in increasing annual instalments through 1970. The participating countries in that case were Federal Republic of Germany, France, Italy, the Netherlands, and the United Kingdom.

7. In 1961 maturities due in the years 1961 and 1962 on certain private bank loans that had been granted to the country were extended for two years. At the same time certain amounts due in 1961 and 1962 on official and commercial debt were postponed to the years 1965 and 1966. The participating countries in that case were Belgium, Federal Republic of Germany, France, Italy, Japan, the Netherlands, Sweden, Switzerland, and the United Kingdom.

8. In 1957 an agreement was reached for the consolidation and funding of trade payment arrears that had been accumulated by Argentina under bilateral trade agreements with creditor

countries. Agreement was reached for the repayment of the arrears over a period of ten years, with somewhat increasing instalments during the period. The creditors involved were Federal Republic of Germany, France, Italy, Japan, the Netherlands, and the United Kingdom.

Brazil

9. Brazil reached agreement in July 1964 with a group of its bilateral creditors assembled in Paris to defer the repayments due on certain amounts of suppliers' credits which it had contracted. The participating creditors were Austria, Federal Republic of Germany, France, Italy, Japan, the Netherlands, Switzerland, the United Kingdom, and the United States. As in the "Paris Club" cases involving Argentina, the principles of the rescheduling agreed to were to be worked out in practice in subsequent bilateral agreements with the individual creditor countries. The service payments deferred amounted to 70 per cent of those due during the years 1964 and 1965. The 1964 maturities were to be repaid in equal annual instalments over a five-year period beginning 1967; the same was true of the 1965 maturities, with repayments to begin in 1968.

10. A few years earlier, in 1961, Brazil entered into various debt rescheduling agreements with certain creditor countries on an individual basis. In the United States, certain maturities due to the Export-Import Bank of Washington over the period 1961-1967 were rescheduled for repayment over a period of about 20 years, with some two years of grace. Parallel with this arrangement with the United States, individual arrangements were made with Federal Republic of Germany, France, Italy, the Netherlands, and the United Kingdom for the postponement of certain maturities due during the period 1961-1965. The amounts of service payments postponed came to 80 per cent of those due in 1961, 70 per cent of those due in each of the years 1962 and 1963, 50 per cent of those due in 1964, and 35 per cent of those due in 1965. The amounts postponed were to be repaid over a period of five years beginning in 1966.

11. In earlier years, for example, in 1953, 1955, and 1958, Brazil obtained various credits from the Export-Import Bank of Washington to "refinance purchase of equipment manufactured in the United States".

Chile

12. The rescheduling of certain maturities of Chile's external debt was agreed to in principle between Chile and a group of its creditors in Paris in February 1965. As in the recent Argentine and Brazilian cases, the agreement in principle was to

be followed by specific bilateral agreements with individual creditors. The participating creditors were Belgium, Canada, Denmark, Federal Republic of Germany, France, Italy, Japan, the Netherlands, Spain, the United Kingdom, and the United States. Norway, Sweden and Switzerland were also present but, in view of the small amount of their credits, they did not become parties to the agreement. The maturities deferred amounted to 70 per cent of the amounts due in 1965 and 1966 on guaranteed suppliers' credits and on certain official loans. The amounts deferred were to be repaid in five equal annual instalments following a grace period of three years.

Ghana

13. Ghana entered into an agreement in December 1966 with a group of creditors, under which some repayments due on certain medium-term foreign debts were rescheduled. On the creditors' side, the following governments were represented at the meetings and were parties to the agreement: Australia, Belgium, Canada, Federal Republic of Germany, Israel, Italy, Japan, the Netherlands, Norway, Switzerland, the United States, and the United Kingdom. Representatives of the IBRD and of the IMF were also present. France, which was not represented at the final meetings, decided to deal with Ghana's debt problems by following the principles laid down by the understanding between Ghana and the other creditors.
14. These principles are to be carried out, in practice, through subsequent bilateral agreements.
15. The understanding covered 80 per cent of debt repayments due during the 2½-year period, 1 June 1966 to 31 December 1968, a 2½-year grace period and eight yearly repayments. The interest charges will be determined by bilateral agreements: "each creditor country will use its best endeavours to keep the average rate ... as low as possible".
16. Although there is no firm commitment on the part of the creditors, it is understood that the present arrangement constitutes the first phase of a negotiation in two rounds; creditors took note of the wish of Ghana to meet in 1968 to consider further relief.
17. As in the case of Indonesia (see below), a substantial fraction of Ghana's foreign debt is owed to countries with centrally-planned economies. In both cases, negotiations for a settlement with these countries are expected to take place on a bilateral basis.

Indonesia

18. An agreement was reached between Indonesia and some of its creditors for the deferment of due repayment dates of both governmental and commercial debt in December 1966. Participating creditors were Federal Republic of Germany, France, Italy, Japan, the Netherlands, the United Kingdom and the United States. The final meetings were held under the chairmanship of France in Paris as agreed at an earlier meeting held in Tokyo. Other countries represented though not participating creditors were Australia, Switzerland and New Zealand. Representatives of the IMF, IBRD and OECD were present at the meeting.

19. The representatives of participating governments or their governmental institutions grant a financial relief to Indonesia which will apply to principal and interest payments due up to the end of 1967 on debts contracted before July 1966 with a term longer than 180 days owed to and/or guaranteed by the creditor governments. It is agreed that countries will give a 100 per cent relief either in the form of 100 per cent rescheduling of principal and interest, or a minimum of 90 per cent rescheduling plus new credits giving relief for the remaining 10 per cent. There will be a three-year grace period beginning 1 January 1967 and repayment will be made over eight years beginning 1 January 1971.

Turkey

20. The rescheduling and refinancing of certain external debt service payments of Turkey were agreed to in a meeting in Paris in March 1965 with member governments of the OECD Consortium for that country. As in the case of the more informal "Paris Club" arrangements with Argentina, Brazil, and Chile, the principles agreed to by the Consortium members were to be carried out in practice through subsequent bilateral agreements between Turkey and the individual creditor countries. The rescheduling covered about 80 per cent of principal falling due in the years 1965 through 1967 on inter-governmental debts to Austria, Belgium, Federal Republic of Germany, France, the United Kingdom and the United States. The repayment conditions for these as well as certain additional maturities for 1968 and 1969 varied with the individual countries, and to some extent also as between different loans of the same countries. Service payments due to Austria and the United Kingdom during the years 1965 to 1969 were deferred for five years, so that they were to be repaid during the period 1970 to 1974, with no interest being charged during the five-year grace period. The Federal Republic of Germany gave the same conditions for payments due during 1965, 1966 and 1967 on a 1958/59 credit as did Belgium with respect to payments due in the years 1965 through 1968. Somewhat more liberal terms were granted

for the 1965-67 maturities of a 1960 Federal Republic credit, which was to be repaid over a period of some fifteen years including a three-year period of grace, and the interest rate on that credit was reduced from 5-3/4 per cent to 3 per cent. France rescheduled payments due during the years 1965 to 1969 to a repayment schedule of some ten years following a five-year period of grace, during which no interest would be charged. The United States was to reschedule maturities due in 1965 through 1967 so that repayment would be effected over a period of ten years, including five years of grace.

21. In addition, Belgium, Federal Republic of Germany, France, the United Kingdom, and the United States undertook to provide funds to permit Turkey to meet payments due in 1965 through 1967 on certain commercial debts owed to their residents. The amounts of assistance to be provided were to be at least 60 per cent of the instalments due in those years, and repayments were to be made after a period of grace of six years in single annual payments at the end of the period of grace.

22. In 1959, as part of a general agreement with the OEEC on a stabilization programme and financial assistance for Turkey, certain commercial arrears of Turkey were consolidated and obligations due on commercial transactions during a succeeding period of some six years were rescheduled, so that payments for both the arrears and the obligations were stretched out over a period of twelve years. The countries that participated in these arrangements with Turkey were Austria, Belgium, Denmark, Federal Republic of Germany, France, Italy, Luxembourg, Norway, the Netherlands, Portugal, Sweden, Switzerland, the United Kingdom and the United States. A detailed account of the 1959 negotiations and agreements is contained in the OEEC publication entitled The Work of the Conference on Financial Assistance to Turkey and Turkish Debts, Paris, August 1959.

Economics Department
June 13, 1967

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SecM67-60

FROM: The Secretary

February 21, 1967

Study on Supplementary Financing
Second Session of the Intergovernmental Group on Supplementary Financing
Geneva, February 6-17, 1967

Attached herewith for information is a summary of the discussion at the Second Session of the Intergovernmental Group established under the UNCTAD Committee on Invisibles and Financing Related to Trade. The summary has been prepared by The Economic Adviser to the President.

Distribution:

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

Second Session of the Intergovernmental Group on Supplementary Financing,
Geneva, February 6-17, 1967

1. The Intergovernmental Group on Supplementary Financing set up by the UNCTAD Committee on Invisibles and Financing Related to Trade met in Geneva from February 6-17, 1967. The first meeting of the Group took place from October 10-14, 1966.
2. The Group discussed certain aspects of the Scheme in a business-like manner under the Chairmanship of Mr. Mermolja of Yugoslavia. All members of the Group were present, including a representative from Poland plus a number of observers.
3. The Bank representatives were called on to explain many aspects of the Scheme while the Fund representatives explained the Compensatory Finance Scheme. The discussions were greatly facilitated and sharpened by the circulation of a comprehensive note by the German representative and by the oral contributions of the various representatives. All members of the Group participated actively in the deliberations as well as some of the observers.
4. The discussions in the Group and informal conversations outside brought out that the majority of the Members, including all the representatives of the developing countries, supported the Scheme essentially as proposed by the Bank staff. A few of the donor countries were critical; one of these submitted an alternative to the Bank staff proposal. A couple of countries took an encouraging but not definitive attitude towards the Scheme. One of the more critical potential donors felt that commodity agreements were a more basic attack on the underlying problems but also indicated that Supplementary Finance could be a useful complement to commodity agreements for those countries unable to conclude such agreements.
5. It was agreed that the assistance provided under the Scheme should be of a long-term nature and on concessional terms. The suggestion was made that the members of the Scheme might be grouped into three categories with the DAC "norm" being the middle category.^{1/} The view was expressed by many that Supplementary Finance should be regarded as supplementary to basic development finance.
6. The proposed export projections were carefully reviewed and discussed in some detail. The general feeling was that export projections of this kind formed a useful and feasible basis for the operation of the Scheme, especially taking into account the scope for improvement. However, one representative remained skeptical, particularly of the wisdom of relating financial assistance to such export projections. In principle, invisibles should be included in the export projections when feasible. In some cases projections of invisible earnings might well be possible for example where tourism was important. While it would be desirable to adjust for import prices it seemed impracticable because of statistical complexities and inadequacies.

^{1/} 25 years maturity, 7 years grace period, 3 per cent interest rate.

7. The content of the "policy package" was discussed at some length and a number of questions were raised. The Bank representative emphasized the central importance of performance understandings to the whole Scheme. All the representatives of the developing countries expressed their acceptance of the need for such performance understandings. They emphasized that for various reasons it would not be practicable or desirable to publicize detailed understandings. The public policy understandings should be expressed in broad macro-economic terms such as export earnings, public and private investment and domestic savings; private policy arrangements between the country and the Agency would implement, where appropriate, these broad publicized commitments. The actuality of performance would be checked at the time of shortfalls as well as during the projection periods. Thus the Scheme was essentially administered and not automatic, even though it aimed at speedy and timely assistance when needed.

8. The cost of the Scheme was discussed at some length. Some representatives expressed concern that the Scheme seemed open-ended. Several representatives requested a quantification of the factors taken into account in deriving the Bank's staff estimate of \$300-\$400 million a year for the initial five years of the Scheme's operations. A tabulation was given to the Group indicating how these figures were derived and this tabulation was discussed. The Bank representative pointed out that the cost figures were derived on the basis of available historical data regarding shortfalls and should not be taken as precise or certain forecasts of the amounts that will be needed in the future. The cost estimates were made to guide the countries at arriving at a judgment of what amount of financial resources would be needed to give the Scheme a reasonable chance of success in the initial five years. The alternative method of arriving at a cost figure was through negotiations and bargaining without the benefit of a reasoned initial starting point. The Bank staff recognized that there was the possibility that these cost estimates might prove too low or too high. The Scheme therefore provided for rationing, if needed, since the initial sum of resources would be limited. The Scheme was thus not open-ended. It was generally agreed to use the Bank's cost estimates as a basis for future deliberations.

9. The feasibility of the proposed Scheme was thoroughly discussed. One representative felt that it would prove unworkable because of the very broad nature of the policy package and the number of countries involved. The Bank representative pointed to the work that was already being done in the field of examination of development programs and related policies. It was not intended that the Supplementary Finance Scheme would go significantly beyond what was already becoming the general practice in this field. Given close collaboration between the World Bank Group and the IMF with the Agency, the Scheme should prove to be feasible and would not involve much extra work either for the countries or the Agencies concerned.

10. The viewpoint was expressed by nearly all delegations that administration of Supplementary Finance should be entrusted to the Bank Group, i.e. to IDA or another affiliate of IDA, if agreeable to the World Bank. As membership would be universal the question would arise of how non-members of IDA could participate in the Scheme, perhaps by parallel arrangements, etc. Close collaboration with the IMF was envisaged by all. The Bank representative expressed no view on the willingness of the World Bank Group to accept this responsibility, if and when requested.

11. The Bank staff was requested to prepare a background paper on the other external causes of instability beyond the members' control. Mention was made particularly of import requirements such as food and unexpected changes in this regard. It was clarified that the purpose of such a paper was not to extend the scope of the Supplementary Finance Scheme or to prepare other schemes to handle these problems or to arrive at a quantitative estimate of the possible cost of such other schemes. With this understanding, the Bank representatives undertook to do a background paper on this subject.

12. Concluding the session the Chairman stated that agreement had been reached in several broad areas but that disagreement still existed on certain important aspects. One or more further meetings of the Group will therefore be necessary. In this respect, the representatives of developing countries expressed their preference for a third meeting in the near future (June) while those of the donor countries want more time for additional study and consultations with their governments. The Group will certainly meet in October and decisions concerning an earlier meeting will be taken by the Committee on Invisibles and Financing which meets in New York next April. The results of this second session of the Group will be presented as an interim report to this Committee. This interim report has been agreed by the Working Group and will be circulated to the Executive Directors as soon as it has been received in the Bank.

SecM66-384

FROM: The Secretary

December 9, 1966

Report on the First Meeting of the
UNCTAD Intergovernmental Group on Supplementary Financing

Attached for information is a copy of a report on the First Meeting of the UNCTAD Intergovernmental Group on Supplementary Financing, held in Geneva from October 10 - 14, 1966. The report has been prepared by the Bank's staff.

Distribution:

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

Report on 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 the groups of developing and developed countries at the meeting of the UNCTAD Committee on Financing and Invisibles in April 1/ (i.e. Argentina, Brazil, Ceylon, Ghana, India, the U.A.R., Yugoslavia, France, Germany, Japan, Sweden, the U.K. and the U.S.), the Eastern European countries added Poland as a member to the Group. They have the right to another seat but have not yet elected to fill it. Twenty-two other governments who are not members of the Intergovernmental Group sent observers to the meeting. (The list of the members of the government delegations and observers is appended.)

2. The preference of the Group was for India or Yugoslavia for Chairman; but India could not accept because it had only one person on its delegation and the designated representative of Yugoslavia missed most of the meeting because of sudden illness. In the end, by an informal agreement Mr. Everts of the Netherlands got the meeting off to a good start on the first day and Mr. Saxe of the United States, who was elected Vice-Chairman, chaired the meeting very ably for the rest of the session. But no one was formally elected Chairman of the Group; the election was postponed until the next meeting of the Group which is planned 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.

3. In view of the dates set for the next two meetings, it seems possible that the Group will be able to make only an interim report to the Committee on Financing, which is scheduled to meet in April. Mr. Dell of the Secretariat suggested that the Group might decide to make its final report to the Second UNCTAD directly (assuming this takes place in September-October 1968); and there was tentative agreement among members of the Group that this may well be the course that they would have to adopt.

Discussion of the Group

4. The discussions of the Group began with a questionnaire which was prepared by the Secretariat based on the issues raised in the April meeting of the Committee on Financing. These issues were grouped

1/ A report on the April meeting of the UNCTAD Committee on Invisibles and Financing was circulated on May 9, 1966 (SecM66-148).

under various subject headings following the terms of reference of the Group. After the first day's discussion it was felt that it would be desirable to alter the order in which various subjects were to be taken up by the Group for discussion. The general approach of the Group was exploratory -- to consider all the important questions posed by the Scheme and to make at least a preliminary reconnaissance of some of them. It would be fair to say that, although it in no way implies that the governments concerned have made up their minds, all the representatives present had a constructive attitude and were genuinely interested in making progress in consideration of the Scheme. The summary of the discussion here follows the order in which various issues were taken up.

(i) Overages, Import Prices and Invisibles

5. On import prices and invisibles, most of the discussion was centered on whether sufficiently reliable statistics were available to make it possible for the Scheme on supplementary finance to take account of unexpected changes in them. The developing countries' representatives were generally in favor of taking some account of price changes for imports, but with the exception of the representative of Ceylon, the issue did not arouse either strong support or strong opposition. Of the developed countries, the representative of the U.K. thought that it might be possible to take some account of import prices, and logically the Scheme should do that; the representative of Japan was doubtful that this could be done because of the non-availability of statistics; the representative of 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 it was felt depended mainly on how good the statistics on this item were, and no definite opinions were expressed either way.

(ii) Export Projections

6. The main-concern of the Group regarding export projections was methodological--what was the difference between Bank and Fund methods of calculating export shortfalls. It was brought out that the Fund now uses the same method of forecasting export earnings as the Bank (i.e. based on commodity studies) but applies it to a shorter period, subject to the further limitation that the forecast for the two years following the shortfall year will not exceed by more than ten per cent the average level experienced in the two years preceding the shortfall year and will not be assumed to be less than the exports of the shortfall year itself. The representative of Germany was particularly anxious that projections should be revised more often, and was generally in favor of a consultation with a country after a shortfall had occurred before any assistance would be granted. In the discussions, however, there was a general-consensus that for the purposes for which the Scheme was designed, a long-term projection was necessary and that the difference between the Scheme and the Fund facility could be explained by the different purposes they were designed to deal with.

(iii) Policy Package and Performance

7. 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 strong feeling on the part of some of the developing countries' representatives that this policy understanding should be confined to policies that had an impact on the export sector. The representative of Japan was worried about the political feasibility of having such a policy package but also commended this aspect of the Scheme, while the representative of Germany emphasized the need for 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.

(iv) Adjustment Process

8. Here again the discussion was not whether some adjustment in the country's economy following an export 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 on adjustments to be undertaken after the shortfall or before it? Some representatives 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; for example, in judging the adequacy of a country's reserves, Mr. Kamarck said that the Agency should be guided by the Fund's views in deciding whether a country should use its reserves in order to meet a shortfall. 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 explained, as an example, 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 the Fund's views were sought and given great weight in matters of interest to them. For example, the Bank was guided by the Fund's views as to an adequate level of foreign exchange reserves for a country.

(v) Financial Requirements of the Scheme

9. The Group wanted a more detailed breakdown of all the factors that had gone behind the estimate of \$300-\$400 million a year as requirement for the Scheme in the Staff Study. There were a number of questions -

what difference did the revised IMF 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 is the use of short-term funds (e.g. IMF) justified 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?

10. Mr. Kamarck 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 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, the Bank Staff 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 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 decision which the countries participating in the Scheme would have to make. There seemed to be a general feeling 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 did not, some refinancing arrangement under the Scheme or in essence through basic development finance would have to be provided for.

(vi) Relationship Between Supplementary Finance and Basic Finance

11. Discussion on this subject was brief, 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. The representative of Ghana, while in favor of the Scheme, was worried that basic finance itself might not be forthcoming; Japan was impressed by the supplementary nature and conditionality of the Scheme; Sweden thought it would make a definite contribution to widening the area of international cooperation in the field of aid. The U.K. 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.

(vii) Terms and Conditions

12. Mr. Kamarck explained the thinking of the Bank Staff on the terms

of supplementary finance, emphasizing that these should be tailored to the needs of individual developing countries. There was no basic disagreement from this position, except from the representative of Japan who thought that they could 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 as an example, the present practice of the Bank whereby a variety of terms for different developing countries (within certain limits) was obtained by varying the Bank/IDA blend in the total volume of lending to a particular country.

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

13. The representative of France explained his country's preference for a general organization of markets. He, however, felt that the proposed Scheme, far from being contradictory, was complementary to it, though he feared that the existence of the Scheme might reduce the willingness of the donor countries to accept commodity agreements. The representative of Japan emphasized that regard should be paid to the effects of existing and potential Commodity Agreements on a 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.

(ix) Administration

14. It was decided that an exploration of this item would be premature at this stage. The German representative did, however, say that he felt that the Scheme would have to be closely associated with the Bank Group and that there would have to be close cooperation with the IMF.

15. In addition to the list of participants in the meeting and the original UNCTAD Secretariat paper, there are also attached several papers circulated at the end of the meeting which might be of interest.

P. Pereira Lira
B. N. Jalan

December 1, 1966

13 October 1966
ENGLISH/FRENCH/SPANISH

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TRADE AND DEVELOPMENT BOARD
Committee on Invisibles and
Financing related to Trade
Intergovernmental Group on
Supplementary Financing
Geneva, 10 October 1966

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Representante: Sr. Horacio Anibal ALONSO
Subgerente de Investigaciones
Economicas del Banco Central

BRESIL

Representant: M. Carlos Eduardo MAURO
Chef de la division de la
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Banque centrale de la Republique

Representant suppleant: M. Geraldo E. Holanda da COSTA CAVALCANTI
Secretaire d'ambassade
Ambassade, Moscou

Conseiller: M. Paulo Roberto BARTHEL-ROSA
Secretaire d'ambassade
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CEYLAN

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Paper 10
14 October, 1966

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Trade and Development Board
Committee on Invisibles and Financing
related to Trade
Intergovernmental Group on
Supplementary Financing
10 October 1966
Geneva

Subject of Studies which the Group has
Requested During its First Meeting

1. The relative importance of export shortfalls and other causes of instability in the external financing of development and to the extent possible, estimates of the effects of these causes on selected countries.
2. The Group invites the Bank and the Fund to communicate to the Group any views they may feel able to express on how supplementary finance would fit into the existing international financial system.
3. A revision (to include data as recent as possible) of Table I. "Adequacy of External Liquidity to Finance Fluctuations in Export of Some Fund Members" (page 19) of the study produced in 1963 by the International Monetary Fund "Compensatory Financing of Export Fluctuations."
4. A study of the differences between and the respective merits of the methods used for the determination of export shortfalls.
5. A presentation of the methods used by the Bank staff in arriving at its estimates of the annual cost of the Scheme (in quantitative terms).
6. An estimate of the effects of recent changes in the Fund's compensatory financing facility on the annual cost of the Scheme.

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Trade and Development Board
Committee on Invisibles and Financing
related to Trade
Intergovernmental Group on
Supplementary Financing
Geneva, October 10, 1966

SUPPLEMENTARY FINANCIAL MEASURES

Note by the delegation of the United Kingdom

Discussion of the problems connected with SFM in the CIFT and the Intergovernmental Group has so far been in general terms. The U.K. representatives believe that it may be helpful to show how those problems might arise, and have therefore produced a brief account of how in their view the Scheme might work in practice. These notes may of course require modification in the light of discussions presently taking place, and of further material being prepared by the Bank.

How the Scheme might work

- (i) A country would submit to the Agency its proposed development programme covering a period of, say, five years. The plan would set out inter alia target rates of growth for GNP and for exports, the latter based on given assumptions about the market for its main products, together with at least the elements set out on page 48 of the Bank Study.
- (ii) The development plan would be discussed with the Agency, simultaneously perhaps with discussions in other multilateral meetings with donor countries which would be concerned with the total need for aid.
- (iii) The export assumptions would be discussed with the Agency, and, if necessary, adjusted in the light of an agreed evaluation of world market prospects. The agreed projections would then be adopted as the reasonable expectation for the five-year period.

- (iv) The development plan should now be consistent not only with the agreed export projections, but also with realistic expectations about the availability of domestic and external resources in general, and of foreign aid in particular. The plan should be devised with sufficient flexibility to meet the contingency that some of these latter expectations may not be fulfilled.
- (v) The country would achieve an understanding with the Agency as to how much of her other possible sources of finance (reserves, IMF compensatory finance, etc.) she would use annually in the event of a subsequent export shortfall or other balance of payments difficulties. She would indicate the measures to economise foreign exchange she might adopt in these circumstances. The country would also agree in general as to the measures required to ensure the success of her plan.
- (vi) (a) If in the first year of the plan the value of her exports were greater than the projected value, it would be noted that the country had experienced an overage and she would neither receive anything from the Scheme nor pay anything to it. The Government would have to ensure that the overage became available to it through e.g. some form of taxation or at any rate take account of the fact that compensation for future shortfalls might be diminished as a result of the overage.

(b) If her exports were less than the projected value, a 'gross shortfall' would be recorded and she would be entitled to supplementary finance from the Scheme after having used the previously agreed amount of alternative finance, and put into effect the agreed measures to economize foreign exchange.
- (vii) The Agency, satisfied that the conditions of the Scheme had been met (and assuming its own financial resources to be adequate) would disburse to the country an amount equal to the 'net shortfall' - the gross shortfall minus alternative finance and the result of the agreed economies in foreign exchange.
- (viii) In any subsequent year, the net shortfall would be calculated in relation to the gross shortfall, if any, minus alternative finance and accumulated overages, if any. The accounts would be adjusted as necessary, to ensure that the country's total receipts from the Scheme over the whole period were no more than the sum of all her gross shortfalls, minus all alternative finance, all the economies of foreign exchange and all overages. (This might be adjusted by any refinancing of short-term credits that the Agency would be empowered to undertake.) On the other hand, if total overages

exceeded total gross shortfalls minus total alternative finance, she should on balance receive and pay nothing. The country would have to bear in mind that the overages experienced during the period would be taken into account as an offset to the shortfalls occurring later during the period.

- (ix) At the end of the period the books would be closed and the process would begin again with the country's next plan.

SecM66-185

FROM: The Deputy Secretary

May 26, 1966

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

There is attached for information a copy of a report of the UNCTAD Committee on Invisibles and Financing Related to Trade. The report deals with the Committee's resumed first session held in Geneva from April 13 to 20, 1966. Attention is drawn to Annexes B and C of the report; Annexes D and E to the report are not included but are available in the Secretary's Department (ext. 2158).

Distribution:

Executive Directors and Alternates
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President's Council
Executive Vice President, IFC
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United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD
Fourth session
Item 5 of the provisional agenda

REPORT OF THE COMMITTEE ON INVISIBLES AND FINANCING
RELATED TO TRADE ON ITS RESUMED FIRST SESSION

held at the Palais des Nations, Geneva, from 13 to 20 April 1966

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INTRODUCTION

1. At the first part of its first session, held at Geneva from 6 to 22 December 1965, the Committee adopted an agenda (TD/B/C.3/13)^{1/} which contained, among others, item 8 entitled "Consideration of the report of the International Bank for Reconstruction and Development on its study of a scheme for supplementary financing".^{2/}
2. As explained in the report on the first part of its first session (TD/B/42 - TD/B/C.3/15, para. 53), the Committee decided "to consider the problem of this item at a resumed first session in 1966, to be called for this purpose ...".
3. At the third session of the Trade and Development Board, the Chairman of the Committee in his statement on the Committee's work in the field of financing related to trade (TD/B/58) referred to this matter, and The Economic Adviser to the President of the Bank summarized the main features of the study (TD/B/59). In the course of the discussion on the subject^{3/} a large number of delegations welcomed the report but wished to withhold comment on the substance until the resumption of the Committee's first session in April 1966.

^{1/} See the Committee's report (TD/B/42 - TD/B/C.3/15) para. 104.

^{2/} The Bank's report on its study, which was prepared by the Bank staff in response to a request made by the United Nations Conference on Trade and Development, 1964, was circulated as document TD/B/43.

^{3/} See the Board's report on its third session (TD/B/66), paras. 40 and 55.

Chapter I

CONSIDERATION OF THE REPORT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ON ITS STUDY OF A SCHEME FOR SUPPLEMENTARY FINANCING (item 8 of the agenda) (resumed from the first part of the session)

4. In accordance with the recommendation in annex A.IV.18, part A, to the Final Act of the United Nations Conference on Trade and Development, 1964,^{4/} the staff of the International Bank for Reconstruction and Development prepared a study entitled "Supplementary Financial Measures" (TD/B/43). The study proposes a scheme for the provision of supplementary financial assistance to developing countries to prevent the disruption of their development programmes in consequence of persistent shortfalls of export proceeds from reasonable expectations. The scheme is based on a close and continuing relationship between the administering Agency and the countries concerned, and an understanding regarding the broad content of development plans and policies, including export forecasts.
5. The scheme assumes that adequate amounts of basic development finance (external and domestic) would be available. The need for supplementary finance would arise should export proceeds fail to provide the expected amount of foreign exchange for reasons beyond the control of the developing country concerned. The Scheme aims at making supplementary assistance speedily available in the light of the economic and financial situation of the country, its performance in carrying out development programmes and policies and the availability of finance from other sources.
6. In his opening statement the Secretary-General of UNCTAD said that the Bank staff study constituted an outstanding contribution towards solving the serious problems which fluctuations in the external sector pose for developing countries. In his view the Committee's examination of a practical solution to one of these problems marked a transition of UNCTAD from a forum of discussion to an instrument for action. He felt that the scheme was perfectly compatible with and, indeed, complementary to international primary commodity arrangements, i.e. to the organization of markets. He emphasized that supplementary finance should be additional to basic development finance. Stressing the importance of export projections in the proposed scheme, he noted that there were various ways of making such projections and of interpreting deviations from projected trends. He questioned whether supplementary finance

^{4/} Proceedings of the United Nations Conference on Trade and Development, vol.I, Final Act and Report (United Nations publication, Sales No. 64.II.B.11), p.52.

should be made available on terms similar to those of basic development finance, suggesting that they be more liberal, and asked whether the Agency should not take account of changes in the terms of trade in considering the need for supplementary finance. He also emphasised the need to draw a distinction between the technical and the political aspects of a development plan. He felt that the latter were a matter for determination by developing countries themselves. Without prejudice to the evaluation of development programmes by the international financial institutions, he pointed to experience in Latin America of evaluation made by a group of independent impartial experts.^{5/}

7. Most Committee members supported the proposed scheme in principle or as a basis for further discussion. They regarded it as a means of solving the problems arising from adverse movements in export proceeds which are of such duration or nature that they could not be adequately dealt with by short-term balance of payments support. Certain qualifications and less favourable opinions were, however, expressed by a number of representatives.

8. One representative stated that the scheme might inhibit an effective organization of markets by means of commodity agreements because it would compete for the financial resources required. He also pointed out that the scheme might make it possible for developing countries to avoid the adjustments in the structure of their production which would be required for market organizations to be effective. Several representatives stressed the importance of stabilizing the prices of raw materials. Most representatives considered that commodity agreements and supplementary financial measures would be entirely compatible.

9. The representatives of some socialist countries of Eastern Europe stated that the scheme submitted by the Bank staff did not in substance propose radical means which would assist the developing countries to solve the problem under discussion; in their view the scheme did not explain the causes for the emergence of shortfalls in export proceeds of developing countries and was limited simply to the examination of certain consequences of those causes. The opinion that the scheme was designed not so much to influence the causes of the adverse movements in export proceeds from which developing countries suffered as to offset certain consequences of these movements, was likewise expressed by other representatives.

^{5/} For the full text of the statement by the Secretary-General of UNCTAD see annex B to this report.

10. The representatives of some socialist countries of Eastern Europe were of the opinion that the provision of assistance according to the scheme would depend upon a subjective evaluation of the development of the economy and on the implementation of certain economic policies by the developing country concerned. This as well as the terms and conditions proposed by the Bank staff in its study would conflict with the recommendation in annex A.IV.3 to the Final Act of the 1964 Conference.
11. They stated that they did not bear any responsibility for the difficult economic situation of developing countries which resulted from the deterioration of their terms of trade on capitalist markets. These countries adhered to the point of view which they had expressed at the first session of UNCTAD when the recommendation in annex A.IV.18 had been voted upon; during the vote on this recommendation they had abstained.
12. They added that the shortfall of export proceeds of developing countries had resulted from the anarchic situation in the market and the domination of that market by western monopolies.
13. In their view the most effective means to ensure the stabilization of the export proceeds of developing countries would be international commodity stabilization agreements which would establish economically justified price levels and provide for the steady growth of trade in those commodities, having regard to the interests of all countries concerned, and also the conclusion of bilateral long term trade agreements.
14. The representative of a socialist country stressed that the financing should proceed on the basis of strict respect for the national economic policy of the country concerned. He stated that the principles and conditions which were to apply to the supplementary finance should be such as to make the financing advantageous and operative, and that there should be no undesirable interference in the internal economy of the beneficiary countries.
15. Of the many representatives who supported the proposed scheme as a basis for further study, several expressed the opinion that funds provided under any supplementary financing scheme should be in addition to basic development finance. In this regard, it was said that contributions to the supplementary financing scheme should not be made at the expense of the resources made available to the International Development Association and the United Nations Development Programme. One representative stressed the value and importance of contributions to multilateral lending institutions,

particularly the IDA. Some representatives expressed reservations about the adequacy of the figures of \$300 - \$400 million estimated to be the annual requirements of the scheme.

16. Some representatives expressed the view that, in the determination of shortfalls, the question of changes in the terms of trade should be taken into account. In the same context, attention was also drawn to changes in the import content of exports, when estimating the extent of a shortfall or overage. Recalling the need to consider supplementary finance as such, and not as residual financing, in the context of overall financial assistance for purposes of fostering economic development programmes, they raised questions about the method of calculation and proposed use of overages to cover deficits occurring before or after such overages, especially with regard to the effect of the use of overages on the servicing of short-term debt.

17. With regard to the terms and conditions of supplementary assistance, some representatives considered that the Agency should have flexible policies. One representative pointed out the need to give further consideration to the question of the rotation period of the loans. Some representatives questioned the proposal that the Agency should have the right in certain circumstances to request repayment from participating countries earlier than originally stipulated. Several representatives felt that the terms of supplementary assistance should be concessional in view of the overall indebtedness of developing countries. The debt position of individual countries and their capacity to incur additional indebtedness on conventional terms were cited by several representatives as the primary considerations that should govern the terms of supplementary finance. This view was shared by the representative of the World Bank, who stressed the necessity of maintaining the Agency's flexibility in setting terms suitable to development and adapted to the overall economic and financial situation of the countries concerned. This would be done through a process of continuous consultation between the Agency and governments.

18. Members of the Committee considered that the extent of the discretion of the Agency in determining whether or not supplementary finance was to be provided in particular cases should receive careful study. It was recognized that the Agency's policies and practices would be a central question in the final elaboration of the scheme. The relations of the Agency with existing international financial

institutions were felt to be a particularly important matter. Many representatives referred to the need for a close relationship between the International Monetary Fund's compensatory financing facility and the proposed supplementary financial measures.

19. The representative of the Fund, in his discussion of the Fund's compensatory financing facility, stressed its short-term character, which distinguished it from the Bank staff's proposal. He also reported to the Committee that the measures proposed in the recommendation in annex A.IV.17 to the Final Act of the 1964 Conference and at the meetings of the Governors of the Bank and Fund in 1965 for improving the Fund's compensatory financing facility were under the active consideration of its Board. These proposals concerned methods of computing shortfalls, the amount and character of the compensation provided, and the possibility of re-financing compensatory credit obligations.

20. With regard to the pre-condition laid down in the Bank staff's proposal that to qualify for supplementary finance a country would have to make feasible domestic adjustments, it was emphasized by many representatives that such adjustments should not in any event involve reduction of the scale of development programmes.

21. It was further emphasized that the scheme should promptly meet the urgent needs caused by shortfalls. Many representatives emphasized the necessity of avoiding delays which might result from treating the Agency as a lender of last resort. One representative, however, expressed the apprehension that participants in the scheme might resort to it too soon, before attempting to utilize other sources of finance.

22. Although it was considered that export projections represented a useful approach to the quantification of "reasonable expectations", general questions and some doubts were expressed about the methodology and reliability of export projections. Recognizing that the quality of projections could be improved the representative of the World Bank cited the Bank's experience in stating that reasonable expectations could be based on export projections.

23. Considerable attention was devoted during the discussion to the question of the performance requirements for assistance under the supplementary finance scheme. Some representatives said that this was a particularly important and valuable feature of the scheme.

24. The idea of economic development as a joint enterprise involving close international co-operation was generally welcomed, but the need to define the form of the understanding between the Agency and member countries was emphasized. There was widespread recognition that performance criteria should be as flexible and general as possible and should be adapted to the circumstances of the particular countries concerned.

25. Some representatives felt that there was a risk of a country being placed under the permanent control of the agency administering the scheme - a control that might imply a detailed examination of the mobilization of a country's domestic resources, its capacity to absorb foreign capital, distribution of investments and balance of payments policies. They questioned the need for the examination of an entire plan in order to establish the existence of export shortfalls.

26. A number of suggestions were made regarding the principles according to which performance criteria should be formulated. In this respect many representatives supported the view of the Secretary-General of UNCTAD that an attempt could and should be made to separate technical from political considerations. It was further suggested that the Agency should only indicate a choice of alternatives, leaving to the authorities of the countries concerned the responsibility for selecting appropriate targets and policy measures.

27. It was also suggested that there should be an examination of the possibility of modifying a plan in certain respects without seeking the consent of the Agency. The hope was also expressed that a country without a development plan would be eligible for assistance under the scheme and that arrangements consistent with this situation would be devised. It was suggested further that provisions regarding supplementary finance should be more liberal than those applicable to basic finance.

28. Several representatives felt that the scheme for supplementary financing need not involve interference with the sovereignty of the country being assisted, while recognizing that there was a great deal of truth in the contention that the scheme placed quite severe demands on economic planning and performance by developing countries. It was suggested that in the modern world all countries - and not least the highly industrialized ones - had reached such a degree of economic interdependence that absolute economic sovereignty had become a fiction. These representatives felt the scheme to be an evolution and extension of existing practices of international consultation affecting not only developing countries but developed countries as well.

29. In the course of his remarks on points raised during the debate, the representative of the Bank observed that the scheme did not imply any "control" of national policies by the Agency. The understanding between the Agency and the country concerned would be reached through constant consultations and frequent interchange of knowledge and views. This, he said, was the normal practice of the Bank in its relations with member countries. The approach of the scheme was pragmatic and did not purport to apply rigid standards universally in a uniform manner. The Agency would be an international institution, with international responsibilities, solely guided by the common interest in development.

30. After the completion of the formal debate an informal meeting of the Committee was held to provide an opportunity for representatives to put further questions to the representative of the Bank concerning some specific features of the proposed scheme. It was generally felt that the exchange of views which followed had served a useful purpose.

31. At the end of the Committee's deliberations, a draft resolution was submitted jointly by the representatives of Brazil, Ecuador, El Salvador, India, Peru, Sweden, Uganda, United Arab Republic, United Kingdom of Great Britain and Northern Ireland and Yugoslavia (TD/B/C.3/L.32 and Add.1) providing for the establishment, subject to the approval of the Board, of a small group of government representatives, with the requisite expertise, to study the proposed scheme for supplementary finance and to report to the Committee's next session; an annex to the draft resolution contained the terms of reference of this group of government representatives.

32. In conformity with rule 31 of the Committee's rules of procedure, the secretariat made a statement (TD/B/C.3/L.33) concerning the financial implications of the action proposed in the draft resolution.

33. At the Committee's 35th meeting on 20 April 1966 the draft resolution with its annex was adopted, with certain modifications and additions, by 33 votes to none, with 5 abstentions.^{6/}

^{6/} For the text of the draft resolution and terms of reference as adopted see annex A to this report.

34. The representatives of Australia, Belgium, China, Federal Republic of Germany, France, Ghana, Poland, Spain and the United States of America made statements in explanation of their votes. The statements are recorded in the summary record of the Committee's 35th meeting (TD/B/C.3/SR.35).

35. In response to a question, the secretariat expressed the view, in the light of advice and information received, that the Group established by the resolution just adopted would need four to six months to prepare its report and that at least a further two months would be needed to have that report circulated and considered by Governments.

36. The Committee decided that members of UNCTAD would be invited to send observers to the meetings of the group under rule 76 of the Committee's rules of procedure, and that the documentation and other relevant data would be sent to all members of UNCTAD.

Chapter II
ORGANIZATIONAL MATTERS

(a) Opening of the session

37. The resumed first session of the Committee was opened by the Chairman, Mr. J. Everts (Netherlands) at the 28th meeting held on 13 April 1966^{7/}.

38. At that meeting the Secretary-General of UNCTAD made an opening statement^{8/}.

(b) Membership and attendance

39. The session was attended by representatives of the following States members of the Committee: Argentina, Australia, Belgium, Brazil, Canada, China, Czechoslovakia, Ecuador, El Salvador, Federal Republic of Germany, Finland, France, Ghana, India, Israel, Italy, Japan, Lebanon, Mexico, Morocco, Netherlands, Peru, Poland, Republic of Korea, Romania, Spain, Sweden, Switzerland, Trinidad and Tobago, Tunisia, Turkey, Uganda, Ukrainian Soviet Socialist Republic, Union of Soviet Socialist Republics, United Arab Republic, United Kingdom of Great Britain and Northern Ireland, United States of America, Yugoslavia.

40. The following States members of UNCTAD were represented by observers: Austria, Cambodia, Ceylon, Chile, Denmark, Hungary, Iran, Iraq, Jamaica, New Zealand, Nicaragua, Nigeria, Norway, Pakistan, Philippines, Portugal, South Africa, Uruguay, Venezuela.

41. The following specialized agencies were represented at the session: Food and Agriculture Organization of the United Nations, International Bank for Reconstruction and Development, International Monetary Fund. The General Agreement on Tariffs and Trade (GATT) was also represented.

42. The following inter-governmental organizations were represented at the session: European Economic Community, Inter-American Development Bank, International Tin Council, International Union for the Protection of Industrial Property, League of Arab States, Organization for Economic Co-operation and Development.

^{7/} For technical reasons the session, originally scheduled for 4 to 13 April (according to the Calendar of Meetings adopted by the Board in its resolution 28(III) of 15 February 1966), was postponed until 13 April.

^{8/} For the text of the statement see annex B to this report.

43. The following non-governmental organizations were represented at the session: International Bar Association, International Chamber of Commerce, International Federation of Christian Trade Unions, International Organization of Employers, World Federation of United Nations Associations.

(c) Credentials

44. At its 36th meeting on 20 April 1966 the Committee considered and noted the Bureau's report on credentials (TD/B/C.3/21).

(d) Other business

45. With reference to arrangements for its second regular session, the Committee noted that, according to the Board's resolution 28(III) concerning the calendar of UNCTAD meetings for 1966, its second session was scheduled to be held at Geneva from 21 November to 2 December 1966. In the light of the consideration given at the first part of the Committee's first session to the draft provisional agenda for the second session^{9/}, the Secretary-General of UNCTAD submitted a revision of the draft provisional agenda (TD/B/C.3/L.25/Rev.1). At its 36th meeting on 20 April 1966 the Committee considered and noted this revised version of the provisional agenda for its second regular session.^{10/}

46. The Chairman referred to the Committee's earlier decision to continue at a later date the discussion on item 9 of the agenda for its first session ("Consideration of the report of the group of experts on international monetary issues"); it had been stated at the Committee's special session (New York, 27 January to 4 February 1966) that members of the Committee might wish to consult informally among themselves on the occasion of the resumed first session for the purpose of deciding when the discussion might be resumed (TD/B/57, paragraph 20). The Chairman said that the results of such

^{9/} See report (TD/B/42 - TD/B/C.3/15), para.113 and the summary record of the Committee's 20th meeting (TD/B/C.3/SR.20).

^{10/} For the text of the provisional agenda see annex A to this report.

informal consultations as had been brought to his notice indicated that, for the moment, there seemed to be no need for any immediate reconsideration of the item by the Committee, since no important new developments had occurred in the meantime. If new developments should occur which, in the opinion of members of the Committee, would justify a reconsideration of the item, it would be for those members to inform the secretariat accordingly, in order that further consultations might take place regarding the procedure to be followed. It had been pointed out, furthermore, that an opportunity for any consultations desired would be afforded at the fourth session of the Trade and Development Board, which was due to open at the end of August.

(e) Adoption of the report

47. At its 36th meeting on 20 April 1966 the Committee adopted this report.

(f) Closure of the session.

48. At the 36th meeting on 20 April 1966, the Chairman declared the Committee's first session closed.

ANNEX A (i)

DECISIONS TAKEN BY THE COMMITTEE AT ITS RESUMED FIRST SESSION

(i) SUPPLEMENTARY FINANCIAL MEASURES

Resolution adopted by the Committee at its
35th meeting on 20th April 1966

The Committee on Invisibles and Financing Related to Trade:

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

EXPRESSING its considerable appreciation for the study prepared by the staff of the International Bank for Reconstruction and Development, in response to the invitation of the first UNCTAD under part A of that recommendation.

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

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

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

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

DECIDES for this purpose, subject to the approval of the Board, to establish under rule 63 of the rules of procedure of the Committee a small group of representatives of governments, with the requisite expertise, consisting of 13 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;

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

^{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.

Annex

Terms of reference for intergovernmental group

1. The Group should examine the study presented to the Secretary-General by the staff of the Bank, in the light of the discussion of it in the Committee. The Group should submit a report on the study (with such modifications to the scheme as it may consider appropriate) as a means of achieving the objective set out in part A of recommendation A.IV.18 of the first Conference. Having regard to the timetable for the next Conference, the Group should endeavour to submit the report in good time for consideration by the Committee at its second session, in November, 1966.
2. The Group should pay special attention to the following points:
 - (i) Questions affecting the scope of the scheme, including the treatment of overages and the regard to be paid to import prices.
 - (ii) The form, terms and conditions for the provision of financial assistance to countries participating in the scheme.
 - (iii) Measures for establishing a relationship between the resources available and the resources required; in this connexion the Group should examine the implications for the scheme of the hypothesis that resources on the scale suggested in the Bank staff study (taking account of any modifications which the Group may suggest) would be available.
 - (iv) The need to establish a boundary between problems of an economic nature and those which fall within the political sphere in the administration of any scheme.
 - (v) Questions relating to the methodology to be applied in the formulation of the projections and the technical assessment of the policies on which the development plans of individual countries are based, the circumstances which may give rise to a claim on the scheme, and the considerations which the Agency should take into account in dealing with such a claim.
 - (vi) The appropriate period of time for which the relevant projections of exports should be established and the concomitant obligations of the Agency and the developing country concerned respectively should be assumed.
 - (vii) The relationship between supplementary financial measures and other types of economic assistance, both multilateral and bilateral, with particular regard to the need to ensure compatibility between them as regards the terms, conditions and criteria on which they are to be provided.

(viii) The comparative effects on economic development of the scheme proposed and of other possible methods which might be employed for the same purpose but with due regard to the primary task laid down in the fifth and sixth paragraphs of the resolution to which these terms of reference are annexed.

(ix) The status, membership and 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.

3. The Group may also put forward suggestions, for further consideration by governments, of ways in which the scheme might be financed.

ANNEX A (ii)

(ii) PROVISIONAL AGENDA, DATE AND PLACE OF THE SECOND
SESSION OF THE COMMITTEE^{1/}

Provisional agenda for the second session of the Committee

(Submitted by the Secretary-General of UNCTAD in conformity
with rule 8 of the rules of procedure)

1. Opening of the session
2. Election of officers
3. Adoption of the agenda
4. Consideration of the adequacy of the rates of growth achieved by the developing countries:
 - (a) Mobilization of internal resources and the flow of external assistance
 - (b) Problems of measuring the net flow of resources to developing countries
 - (c) The terms, co-ordination, and effectiveness of aid
 - (d) Problems of debt servicing
 - (e) Suppliers' credit
 - (f) Stimulation of the flow of private capital
 - (g) Financing and Regional Development: Aspects of the expert group report entitled "Trade Expansion and Economic Co-operation among Developing Countries" (TD/B/68)
5. The Horowitz proposal: Consideration of the report of the group of experts.
6. Further consideration of the report of the expert group on international monetary issues (TD/B/32)
7. Report of the group of experts on payments arrangements among developing countries
8. Supplementary financial measures

^{1/} According to resolution 28(III) adopted by the Trade and Development Board on 15 February 1966, the second session of the Committee on Invisibles and Financing related to Trade is scheduled to be held at Geneva from 21 November to 2 December 1966.

9. Progress reports on the programme of work on invisibles.^{2/}
 - (a) Insurance and reinsurance
 - (i) Report of the Expert Group on Reinsurance
 - (ii) Other activities
 - (b) Tourism
10. Provisional agenda, date and place of the third session of the Committee
11. Adoption of the report of the Committee to the Trade and Development Board
12. Any other business

^{2/} It is expected that the Committee may wish, as at its first session, to consider this item in a separate sessional sub-committee of the whole. It is hoped in this connexion that the delegations to the session will include experts in the field of insurance, reinsurance and tourism respectively.

ANNEX B

statement by Dr. Raul Prebisch,
Secretary-General of UNCTAD, at the Committee's
28th meeting on 13 April 1966

Mr. Chairman,

I thank you for giving me the floor to speak on the Study by the International Bank for Reconstruction and Development on Supplementary Financial Measures, the importance of which you have rightly stressed. This report, which the Committee is going to consider at its present meeting, is of great significance, not only because of the subject matter itself, but also because this is the first opportunity UNCTAD has had since the 1964 Conference of engaging in a discussion which will no doubt be very fruitful.

It will be recalled that, at the Geneva Conference the developing countries stressed the need for measures against the continual fluctuations in the external sector of their economy. It was in response to that concern that the United Kingdom and Swedish delegations submitted a draft resolution which led to the report we are now about to examine. The discussion therefore has a concrete proposal as its starting point.

It is a matter for satisfaction that UNCTAD is thus entering a new field of activity. It has been repeatedly stressed that UNCTAD should not be merely a forum for the discussion of problems, but also an adequate instrument for solving them in practice. Hence the great significance of this meeting of the Committee, which is called upon to study a programme and a practical solution presented to us with all the authority of the International Bank.

I should like to deal with three aspects of the report. First, an examination of the proposal itself. Second, its nature and characteristics. Third, the relationship between this scheme for supplementary financing and the basic financing of economic development plans.

On the first point, we should consider whether the idea of supplementary financing which emerged from the 1964 Conference provides the best means of counteracting the effects of fluctuations in the external sector of the developing countries. I have no hesitation in saying that it is an adequate solution and perfectly compatible with other methods of reducing the extent of these fluctuations. I refer, in particular, to the arrangements or agreements relating to primary commodities, in other words to the organization of markets. I do not believe that these agreements offer an alternative to supplementary financing, but merely another convergent means of solving the problem of external fluctuations. I say this for two reasons. First, because not all primary commodities can be the subject of stabilization agreements and secondly, because these agreements are not generally intended to establish a fixed price, but rather a maximum and minimum between which market prices can continue to fluctuate. This is true of the cocoa agreement which UNCTAD is now considering with, I am sure, very good prospects of overcoming the differences which still divide the countries interested in that commodity.

Accordingly, even where satisfactory commodity agreements are arrived at, there will still be a margin of fluctuation which will require supplementary financing to obviate the effects of such fluctuation on the economy of developing countries.

The Study submitted by the Bank has the unquestionable merit of frankly recognizing that it is very difficult, if not impossible, to formulate a systematic economic development policy and apply it in a development plan, if all the fundamental calculations for the plan are upset by external fluctuations. This constitutes a very positive contribution to the solution of one of the most serious problems facing the developing countries.

I should now like to examine briefly some of the main characteristics or modalities, of the Bank's study. It is essentially based on a projection of a country's exports. The idea that the projection of exports constitutes

an essential element of any economic development plan is fully accepted, so that there is no need to discuss it, although from the technical point of view, there may be differences of opinion regarding the methods used (or which should be used) in making the projections or the criterion on which this work should be based.

The Bank has used the projection method to determine the magnitude of the supplementary financing. At the same time, it has used it to introduce the closely related concept of exports which at a given moment are larger than those forecast in the projection. The Bank uses the term "overages" - i.e. excesses - to describe this and considers that the excess of exports over the projected figures must subsequently be taken into account in determining the amount of supplementary financing which a country should receive when there is a shortfall. This means that there would be some off-setting between a present deficit and a past surplus with respect to the projected figures. This point should be examined in detail. What will a country do when its exports exceed the projected figures? Will it accumulate additional monetary reserves if its reserves are already at a satisfactory level? Will it increase its reserves and await a fall in exports to bring them into play? Will it invest the reserves if they appear excessive in the light of the country's experience, or will it use them to import capital goods?

In the thirties, when I had played some part in my country's Central Bank, I had occasion to recommend an anti-cyclical policy based on the formation of additional monetary reserves during the upward phase of the cycle, when exports are increasing so as to have resources available to face the downward phase. To this end, the Central Bank put notes or bonds on the market so as to withdraw the excess money created by abundant exports and at the same time accumulated reserves. Thus the anti-cyclical policy was combined with an anti-inflationary policy, by withdrawing excess purchasing power from the market.

A policy of that type was quite understandable at the time, for two main reasons. First, because we were then living under the tremendous impression created by the world depression, and considerations of stability prevailed over considerations of development in the central banks of the developing countries, the aim being to avoid any further serious contraction of the economy. Another basic consideration was that the world then had no international credit machinery to cover a deficit in the balance of payments, whether it was cyclical or not. Today, Mr. Chairman, I would not advocate a policy of that nature. I believe that now, when considerations of economic development prevail, reserves in excess of what prudence requires a central bank to maintain should be used to acquire capital goods. We should consider this point and explore the possibility that, in the event of a cyclical recession, the external resources thus used in boom periods can be recovered through the agency of international credit organizations. I would like to submit this idea for the consideration of Mr. Friedman and, of course, of the group of experts which will be set up to consider this problem if the suggestion made a moment ago by the Chairman is adopted by this Committee and by the Trade and Development Board.

A point of considerable interest with regard to supplementary financing is that it would be granted on terms similar to those of basic financing. On this point I should like to ask the distinguished representative of the Bank a few questions. If the basic financing of a plan has been granted on certain specific terms as to interest rates and duration, and a contraction of external origin then occurs which reduces a country's capacity for saving, will supplementary financing be granted on the same terms as the basic financing although the country's capacity for saving has altered? Or, will supplementary financing be adjusted to take account of the worsened conditions which have arisen for reasons beyond the country's control? Will it not be necessary in some cases to consider loans for longer periods or at lower rates of interest, so as not to place the country in difficulties with regard to the fulfilment of its obligations?

This whole concept is based on the need to face the consequences of an unexpected fall in exports. Projections are made on the basis of certain conditions, and when these conditions change supplementary financing comes into play. It is conceivable that, in certain specific cases, projections should be made bearing in mind a tendency for the terms of trade to deteriorate. It is not my intention to give, at this stage, any interpretation of the Bank's report or of the interesting paper recently read at Chatham House by Mr. Friedman; but I would like to ask this question: what would happen if a tendency for the terms of trade to deteriorate, which had not been observed at the time when a development plan was formulated, were to appear during its implementation? The Bank's study only mentions the case of a fall in exports, which may be due to a decrease in their physical volume or to a fall in prices and rightly offers supplementary financing as a means of dealing with the consequences. But I wonder what would happen if the fall in export prices were to coincide with a substantial increase in the price of imports, resulting in a decrease in the external purchasing power of a country. Could a country obtain supplementary financing in those circumstances? I take the liberty of putting these questions to Mr. Friedman, because I believe they will make it easier to understand the problem.

Lastly, without making an exhaustive analysis of the modalities of the scheme, I think it is important to examine the magnitude of the resources which the Bank recommends should be mobilized for supplementary financing. The study mentions an amount of \$300 to \$400 million a year, on the basis of previous experience and of a detailed analysis of export trends for a large group of countries. It also arrives at the conclusion that the average size of past fluctuations is about \$1,600 million, and rightly maintains that part of this amount could be provided from monetary reserves, IMF drawings, other types of credit and, lastly, by restricting some imports. It is no doubt of the greatest importance to study this aspect of the question, but I believe that only when the scheme is put into operation will it be possible accurately to define the nature and magnitude of the resources that will have to be brought into play. I have the fullest confidence that the scheme is feasible and, what is more,

that it can be effectively implemented. In this connexion, I should like merely to refer to import restrictions. In his recent work, Mr. Friedman speaks of the possibility of placing restrictions on certain superfluous or luxury imports. This is a point of great interest. Supplementary financing should be accompanied by a rational anti-cyclical policy to be pursued by the developing countries, which would use every means in their power to mitigate the consequences of external fluctuations and to avoid excessive indebtedness.

Everything possible must be done to ensure that international financial resources are used to cover the savings deficit or the difference between the investments a country wishes to make under its plan and the amount of internal resources it mobilizes. In any case, except in exceptional circumstances, these external resources must not be used to meet consumer needs, for sooner or later they will have to be repaid to the lending agencies; it is of the greatest importance that they should be used for investment, not for financing external payments deficits, although certain circumstances may make this inevitable. It is true that some countries have carried the policy of import substitutes to a point where no margin is left for restricting imports when an adverse movement of the cycle occurs. Other countries, however, still have a margin of imports which, although not necessarily luxury goods, could be reduced or deferred, because they are not indispensable for economic development. On the other hand, it would be difficult to curtail, for example, imports of semi-finished articles, essential consumer goods, or certain capital goods. Consideration should be given to this aspect, with a view to reducing the need for supplementary financing as much as possible. The criterion I am putting forward is not that of financial institutions, but the one which should guide the developing countries, because their investment needs are so great that it would be truly deplorable if resources of this kind were not used for investment.

The third aspect of the study to which I wish to refer is the connexion between supplementary financing and the basic or regular financing of a development plan. As I have said before, one of the main features of the Bank's proposals is the fact that the whole system is based on the idea of planning. We are well aware that the technique of good planning includes the projection not only of exports, but also of the internal savings which a country must mobilize to demonstrate its own effort under the development policy and also a projection of the external resources available for executing the plan. All these projections will, of course, be carefully scrutinized by the agencies concerned with the financing of a programme.

In addition to its technical character, this analysis has a very important implication. So far, save in a few exceptional cases, the policy has been to finance isolated projects without having any overall idea of the external contributions a country requires to carry out its plan. The fact that the projection of the external resources required for financing an economic development plan is accepted, means, if I am not mistaken, acceptance in principle of the idea that international lending agencies, when studying a plan as a whole, recognize the need to settle on a certain volume of external resources beforehand; in other words, while the essential idea of financing specific projects has not been abandoned, the need to decide beforehand the total amount of external aid which a programme or plan of five, six or seven years may require, now appears to be recognized. This seems to me to be of the greatest importance from the point of view not only of basic, but also of supplementary financing.

What does "supplementary" mean? It means that outside financial resources are added to those previously provided for under a plan. The determination of these basic resources is of special importance, since, if this fundamental principle is not accepted, supplementary financing may well be provided at the expense of the basic financing when, on the contrary, what is desired is the addition of supplementary to basic financing, in order to enable a country to carry on its development plan without any serious disruption. It is an accepted principle, which seems to me to

be self-evident, that if a group of international institutions recognizes, in some form, the need to provide resources during the lifetime of a plan, it should make a thorough study of that plan, of its soundness as regards the objectives in view, of the resources required to carry it out and of its other characteristics.

I have previously referred to the need for a projection of the internal savings required for a plan. How far can the international lending agencies go in analysing purely domestic measures taken by a country? To what extent will countries submitting a plan be required to adopt a certain type of measure? These are matters which have long been under discussion.

Let us take the case of the mobilization of savings. It is obvious that in order to determine the amount of external resources, lending agencies must know the amount of internal resources, and the country in question must undertake to make its own efforts to obtain these resources. This is a matter entirely distinct from consideration of the domestic policy measures which a country will apply in order to fulfil its undertaking to mobilize its own savings.

Is a specific financial, credit, monetary or fiscal policy going to be demanded? Is it going to be decided how a country should manipulate its fiscal and monetary machinery in order to meet the savings projection, or is the country's undertaking to raise this predetermined amount sufficient? This is a matter of such importance that a dividing line must be drawn between the technical requirements of a plan and what may be called its political requirements. Since this is a point of the greatest importance and is essential in any development plan, I think that it will be discussed by this Committee not only from the point of view of supplementary financing proper, but also in a general context, since it relates to the whole concept of the financing of development plans.

I can give another example. A country may have special views on combining economic and social investments. There are countries which prefer to settle a pressing problem of low-cost housing before investing in directly productive projects. When considering a plan, should international credit institutions pass judgment on these aspects of it which concern a country's domestic policy? On the other hand, the difficulties encountered by a country in applying a particular policy within the framework of its conception of economic development can be assessed only in the light of the experience acquired by people of that country. All this suggests that a clear dividing line should be drawn between what should really be recognized as a fundamental requirement for the soundness of a plan and for its application - and no one could deny that the international credit institutions, must satisfy themselves that the plan is rational and feasible - and those other aspects which fall within a country's exclusive sovereign right of determination.

As I have said before, these matters have been widely discussed, and I might mention an experiment in that part of the world which I have so far known best, namely Latin America. When a few years ago, the Charter of Punta del Este was considered, from which the Alliance for Progress originated, a group of economists which had been consulted proposed that, without prejudice to the evaluation of economic development plans and their implementation by international credit institutions - which could not be deprived of the powers essential to them - plans should first be evaluated by a small group of impartial experts. The purpose was to ensure the greatest measure of objectivity in the analysis and at the same time to obtain impartial advice on certain fundamental aspects of economic development policy.

The idea was approved by the governments represented at Punta del Este, but not in the form in which it had been submitted: on the one hand, the number of experts was increased, but, on the other hand, the group was decapitated, in that it was deprived of a chairman. All this contributed to the failure to carry out this excellent project in the form in which it had originally been proposed by those who had conceived it.

A few days ago, at another inter-American meeting held at Buenos Aires, the idea was modified. The experts were reduced in number, and instead of acting as an independent group, they are to advise the Chairman of the inter-American Committee of the Alliance for Progress, an officer whose important duties include making recommendations on the allocation of the financial resources which the United States Government places at the disposal of Latin American countries. It is to be hoped that after this change the experts will continue to have a large measure of independence in evaluating plans and advising governments and credit agencies; this will make it possible for the experiment, which was begun a few years ago, to be refined, and for the group of experts to be very useful.

The initial proposal not only laid it down as an essential condition of external financing that a plan should exist, but also required that the plan should be submitted to the experts. These two conditions were abandoned at the time, possibly because the idea was very new, but perhaps experience shows that it would be advisable to reconsider them. I have ventured to recall this matter, because certain apprehensions I have noticed among some delegations of developing countries in this matter might perhaps be dispelled if it were considered desirable to set up machinery of that kind.

At any rate, the fact that a country reserves to itself certain domestic policy decisions which are its own inherent and inalienable prerogative, does not mean that it is not to that country's advantage, as experience shows, to receive technical assistance - which may be multilateral or bilateral according to choice - for the purpose of determining what kind of measures should be applied.

It will also be remembered that the regional economic commissions of the United Nations in the developing areas have established planning agencies capable of training staff and providing technical assistance to countries applying for it, with a view to advising them on programming. The International Bank, too, has an institute qualified to deal with these matters. But let me stress that this is technical, and in no case political assistance. The former is what the developing countries need; the latter is something that concerns them alone.

This Committee is meeting for only a very few days, and it cannot possibly consider all the important aspects of the Bank's report. You yourself, Mr. Chairman, in suggesting that an inter-governmental committee should be set up, have recognized the importance of the idea. I hope that the Committee on Financing and, thereafter, the Board, will approve the suggestion. However, it would also be valuable for this Committee to support, in a positive manner, the idea of supplementary financing as such, because the task of the experts would be considerably facilitated if the acceptance of the idea itself were to be taken as a starting point, which would not mean accepting all the details of the proposal. The experts would then not need to spend any time discussing whether supplementary financing is desirable or not. We all know that discussions involving decisions of that kind are always difficult. I think that this task would be made much easier if it were recognized that the Bank's report solves, in principle, the serious problem which the 1964 Conference laid before governments and which the delegations of the United Kingdom and Sweden took up. I believe, Mr. Chairman, that this would be one of the most important contributions the Committee could make, and it would define the scope of the study to be undertaken by the group of government experts, if the idea of setting up such a group is accepted.

ANNEX C

REMARKS BY MR. IRVING S. FRIEDMAN, THE ECONOMIC ADVISER TO
THE PRESIDENT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT AT THE THIRTY-SECOND MEETING OF THE
COMMITTEE ON 15 APRIL 1966

Mr. Chairman,

I am honoured to have been invited to participate in these meetings and I appreciate this opportunity which the Chairman has given me to address the Committee on some of the issues arising out of this Study that we were asked to undertake by the UNCTAD Conference in 1964.

I might say at the outset that we in the Bank would feel amply rewarded in our efforts if this Study contributes to a fruitful dialogue between developed and developing countries based on a concrete proposal as the distinguished Secretary General of UNCTAD was generous enough to suggest in his most illuminating opening address.

From the very beginning we tried to approach the problem that you had given to us realistically and objectively - our desire was to come up with a practical and feasible solution to a problem which had been one of major concern at UNCTAD. We wanted to devise a Scheme which was both economically sound and capable of achieving international acceptance. We assumed that more than theoretical perfection, what you wanted was a practical proposition based on economic facts, analysis and experience. It is, of course, gratifying and a source of considerable pleasure to us to hear the Secretary General and so many delegates from many countries express the view that the concrete proposal we have put forward provides a sensible practical approach to the problem which all of us are agreed is a major one. I believe that the comments made should assist very much in preparing an improved as well as a detailed and complete Scheme, including financing and administration. On behalf of the Bank staff, I take this opportunity to thank the Chairman and other members of the Committee for the very kind words of appreciation about our efforts, and the warm reception that they have given to our Study.

Mr. Chairman, I would like to turn to the questions that were raised by the members of the Committee. The questions raised reflect the seriousness and care with which the Scheme was studied. This meeting is providing an excellent opportunity for clarifying some of the aspects of the Study and the members of the Committee have focussed on the major aspects.

Part of the difficulty that some of the delegations have felt about some points of language in the Study is probably due to the fact that we presented the Study in the form of a working economic document which tries to present an economic analysis and an economic scheme, some of which is new, without the pretence of producing a legal text which could serve as the basis for formal international agreement. Some of our nomenclature has been questioned; I agree that the use of particular words should receive careful attention when preparing a formal text setting forth rights and obligations in an international agreement.

Perhaps another difficulty in studying the Scheme arose because we deliberately decided not to enter into detailed consideration of aspects which we believed could more appropriately be dealt with once initial international acceptance was reached on the basic aspects of the proposal.

In responding to the questions raised, it may be useful, Mr. Chairman, if I were to distinguish between those questions which relate to the basic nature of the proposal itself and those that are of a more technical nature in the sense that differences on these do not affect the fundamental character of the Scheme.

I shall take the more general basic questions first which I find easier and briefer to answer by making some general remarks rather than in a one by one question and answer form. Please excuse the length of my remarks and the inevitable repetition of material in our Study.

It was mentioned that supplementary finance must indeed be supplementary to the basic flows of long term development finance. (Incidentally, at this point, I would like to express our gratitude to Dr. Prabisch for giving us the word "basic" which is certainly better than the word "normal" development finance

that we had used in the Study.) We could not agree more. As we said in the introductory chapter of our Study, "the Scheme set forth in the Study is predicated on the assumption that it would be supplementary to and not a substitute for already existing forms of aid". Supplementary finance, as we see it, can be meaningful only in the broader context of development finance. The flow of development finance under existing procedures is a major determinant of the volume of investment in the public and private sectors which a country can reasonably undertake; it helps a country achieve its growth objectives if the country perseveres in its development efforts. The purpose of supplementary finance, as set forth in the Scheme, is to help assure that the achievement of these objectives will not be frustrated because foreign exchange earnings from exports and invisible earnings, where appropriate, do not materialize in the amounts envisaged at the time the investment and aid decisions were made.

Our suggestion, in broadest terms, Mr. Chairman, is to institute a financial machinery which would insure the provision of the needed additional foreign exchange in sufficient time to substitute for the foreign exchange not earned because of the unexpected decline in export receipts which we defined for this purpose to include - I quote - "merchandise and, where appropriate, invisible items". Such additional assistance has only one purpose - the maintenance of good development programmes and policies. This is primarily why the heart of the Scheme that we propose is that the country and the international agency administering the Scheme would reach an understanding upon a development programme and a related set of development policies to be pursued by the country participating in the Scheme - the "policy package" as we have called it in our Study. I had the opportunity to explain what we meant by this idea of policy understandings to the meetings of the "31" and group B, but I think the point is important enough to bear repetition in this Committee. The policy package we have in mind would be arrived at in the course of close

co-operation and exchange of views between the Agency and the country. It is not meant to be frozen at the time of its adoption. Nor can it be defined in general or detailed terms applicable uniformly to a great variety of countries falling into the categories of developing countries. As we said on page 9 of our Study, "the formulation of an agreed policy package should be based on a realistic evaluation of the member's needs and possibilities and a pragmatic assessment of the effectiveness of the proposed measures for achieving the objectives of the development programme. 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". I think this provides the answer to the question whether we might be thinking of a distinct set of policy understandings for the special purposes of supplementary financing scheme alone. We are not. The criteria which we believe should determine the flows of basic development finance would be the ones that determine the flow of supplementary finance. As we all know, development finance embraces all development activity, and this is why the policy understanding cannot be limited to export policies alone, but has to cover the whole gamut of development policy. What is important here is the commitment of the government of a country to good performance, and as we said - and I quote - "good performance, rather widely conceived, would then be the basis for the necessary judgment". (page 39). We do not, of course, anticipate any "control" by the Agency of countries' policies. The policy understanding that is reached is arrived at through constant consultations, interchange of knowledge and views. The Agency would be an international one with an international responsibility accountable to the community of nations. It would be set up to do a job and would have no axe to grind except a common interest in development.

I was glad to note that there seems to exist general agreement that the promotion of economic development on the basis of foreign assistance is a "joint enterprise", involving the extenders and recipients of such assistance. It is our belief - and this is a fundamental assumption for the viability of the Scheme - that our proposed understanding on the development programme and related policies can be reached objectively and professionally through international consultation and collaboration. It may well prove that through this mechanism the development effort of a country will command support in a way that a programme put together by the recipient countries themselves cannot be expected to do. Lest I be misunderstood to imply that all developing countries are expected to have highly comprehensive plans for the whole economy before they can join the Scheme, let me definitively state that we recognize and appreciate that in many countries there might not be an adequate statistical base to permit such plans. In some cases the political and social character of the country might make developmental programming inappropriate. In these cases a partial public investment programme may be agreed upon combined with estimates of the likely developments in the private sector to permit the formulation of the policy understanding. The approach of the Scheme is pragmatic and does not purport to have rigid standards to be universally applied in a uniform manner.

Dr. Prebisch has usefully suggested that it may be possible to find a boundary between those policies of a technical nature where this collaboration could take place and the political sphere in which only the wishes of the country itself can be the best judge of the decision to be taken.

As a number of delegates have noted, this type of collaboration is not new. It is already taking place in the relationships of the countries to the existing international bodies. All that we have proposed here derives from our experience in dealing with our member countries. In the meeting of the groups that I had the privilege to attend, I tried to indicate some of the ways in which our own activities in the World Bank group are similar to what is being proposed in the Scheme. Thus, as we say in the Study "the agreement on development programmes and related policies proposed in the Scheme would amount to an extension and strengthening of the existing procedures with member countries rather than the institution of an entirely new process. It would involve, as do these existing procedures, close collaboration with

the work done by the IBRD, the IMF and other international agencies". As some delegations have noted, these procedures of international understanding and collaboration are not peculiar to developing countries alone, but apply to developed countries participating in various international support mechanisms as well.

This brings me to the operational significance that this idea of policy understanding enjoys in the Scheme. The unexpected shortfall for which financing is to be provided under the Scheme has two basic characteristics: (i) it should be potentially disruptive to the development programme of the country and (ii) it should be beyond its control. Operational meaning of these requirements is given through these policy understandings. Instead of having these reached after unexpected shortfalls, the Scheme suggests that they be reached before the adverse movements take place so that the needed assistance can be timely as well as adequate. This permits the adoption of the rule that as long as the country is acting within the mutually understood frame of reference all unexpected shortfalls can be considered beyond the country's control.

The suggestion has been made that the effect of the Scheme might be to deter a country from taking fundamental measures to get at the roots of the problems created by concentration on a few primary products. This, of course, is not the intent, nor, do we believe, would be the effects of the Scheme. As we said in the Study, "the familiar problems of the instability and sluggish growth of the export receipts of developing countries can in the long run only be solved through sustained development and diversification of the production and exports of primary product exporting countries". Mr. Chairman, I need not elaborate this point in this meeting. As we all know, this process of diversification and domestic transformation is a long one. The purpose of the Scheme, as we see it, is to facilitate this long-term fundamental task by eliminating or significantly reducing the adverse consequences in the poorer countries of the chronic uncertainty to which their development process is frequently vulnerable, i.e. unexpected shortfalls in their export receipts.

To provide a mechanism for financial insurance to deal with unexpected export shortfalls is not to deny the place of other arrangements which might reduce the amplitude of fluctuations in primary products or contribute to the long term goal

of diversification. We agree with a number of delegations and the representative of the International Tin Council who expressed the views that there is no conflict involved here. These approaches are complementary and can be simultaneously undertaken to the greater effectiveness of each other. In fact, our own attitude to these arrangements is unequivocally positive - for example, as some of you know, in collaboration with the International Coffee Organization and the FAO we are ourselves actively involved in a major inquiry into the coffee problem and how careful development might attack the roots of the problem.

A last general point. It has been suggested that the Scheme in its determination of export shortfalls should also take into account unexpected changes in import prices. In working out the Scheme we gave the matter considerable thought. We concluded, and I quote, "ideally, export shortfalls probably should be calculated in real terms, that is after taking account of unexpected movements in import prices, because this would indicate the unexpected change in the ability to purchase a given volume of imports resulting from an unexpected decline in export proceeds". In practice, however, it is often difficult to take this factor into account, because for most developing countries, import indices are not easy to come by. It is quite conceivable that the Agency through experience could develop the statistical base which would permit a thorough inquiry into the nature and the extent of the problem. The Agency might eventually decide, if experience indicated the need and technical difficulties had been overcome, to calculate shortfalls in real rather than nominal terms, which could take care of this problem.

I must emphasize that export shortfalls, including where appropriate earnings from invisibles, is the only uncertainty, however broadly defined, to which our proposal is addressed. There are, of course, a number of other uncertainties associated with the process of development but we believe that the solution of this - the most important uncertainty - would significantly contribute to the growth of developing nations and might well facilitate finding a solution to the other uncertainties, if the international community desires to do so.

With your permission, Mr. Chairman, I would like now to turn to some of the more technical points which were raised during the meeting.

First, there is the question of "overages". Some have suggested that we have treated them too kindly, while others have suggested that we have not treated them kindly enough. It has been suggested that, under present circumstances, countries should be allowed to use overages to finance the import of capital goods. I believe this suggestion results from the fear that the flows of development finance may continue to be inadequate; the use of the overages would thus provide needed foreign exchange. On the other hand, the reason we had for allowing for the deduction of overages from shortfalls during the same projection period was that development financing would be available for good development programmes. In addition, under the Scheme the international community would not be asked to do what a developing country could do for itself in the supplementary financing scheme without injuring its development effort. It is the need to avoid slowing up the development programme because of unexpected decline in foreign exchange availabilities that we are trying to avoid during the projection period.

Questions were also raised about the advisability of the rule that overages should not be carried over from one projection period to the next one. This we did because we felt that it would provide a measure of incentive for developing countries to try harder to take measures to step up exportation. Overages which result in excessive reserves would either reduce the level of long-term finance needed from abroad or make possible some acceleration in growth in future projection periods.

A question was raised as to why not revise export projections every year in order to reduce the deviations from expected trends. Given the usefulness of a long-term development plan or policies, a yearly revision in export projections underlying the investment and procurement decisions would be self-defeating. Investment calculations must be based on export projections and the length of the latter by its very nature must be tied to the former, namely investment calculations. We have therefore suggested that during the operation of the

development plan the underlying export projection should not be subject to revision, except of course when certain intensive structural changes warrant a major restructuring of the investment pattern and development strategy. I may here briefly touch upon the subject of the feasibility of making export projections. Many countries are already used to making projections to provide a basis on which investment programmes can be built. Our own experience in this field has been considerable and shows that usable export projections can be made to establish reasonable expectations for the purposes of the Scheme. Their quality could of course be improved, and as for our own projection work, we are constantly trying to improve our analytical tools as more statistical data are made available and our knowledge of countries deepens.

I now come to the question about the terms of financing. Our view on this subject is a natural by-product of our view that supplementary finance should be treated on the same basis as development finance. Just as over the years we have been arguing for terms of basic development finance to be tailored to the overall financial and economic position of the country as reflected by its debt servicing capacity and other economic factors, in considering the terms of financing for this specific purpose, we felt that same considerations should apply. The UNCTAD Resolution has asked us that terms should be "concessional and flexible". We suggest flexible terms but at the same time the Study explicitly states that "although the terms vary from case to case, the Scheme should be prepared to extend funds on concessional terms in many countries". In this way it would be possible to take into account the necessity of avoiding the possibility that supplementary finance might aggravate the indebtedness problem of a country, and at the same time meet the need for economizing on the use of funds of a concessional nature. In our view it is primarily the capacity of a country to service debt that ought to determine the terms on which it receives all development finance -- basic and supplementary.

The characteristics of the Scheme as a residual lender was the subject of consideration by a number of delegates. This is indeed a point which - given the general acceptance of the Scheme - would require detailed examination. There is in most cases some scope for the country to take some measures of a marginal character which contribute to solve the problem of the shortfall without resulting in a disruption of the development programme. We were glad to hear from Dr. Prebisch that

he supports this position. There might be the uses of its own reserves - if they were at a level which could be considered above the normal needs - or the recourse to other sources of financing. There might be situations in which, due to the indebtedness position of the country, it might be even considered inappropriate for the country to borrow on short term. The Study reiterates that there would be a close collaboration between the Agency and the other international financial agencies, so that the utilization of their facilities would be integrated in the working of the mechanism of supplementary financing which - being a species of development finance - has necessarily a long-term character, as we have had occasion to point out. This approach - where the access to other sources of finance has been envisaged beforehand - is one of the elements which allow the provision of the needed finance by the Scheme with certainty and speed.

The repeated references to the possibility of a time-consuming sequence in the utilization of other sources of finance which might be available for the financing of the unexpected shortfall have convinced me that some parts of the Report do not convey the idea which is clearly expressed in page 8 of the Study. In the first paragraph of page 8 the Study states "the Agency would have the essential objective of the Scheme, i.e., to provide needed finance with certainty and speed on appropriate terms in order to avoid disruption of development programmes, so long as members act in accordance with agreed development policies". On the same page in the section dealing with the "effective understanding with the Agency" it is specifically noted in (iii) that the use of available reserves and other sources of external credit would be part of this understanding. Since this understanding would be formulated at the beginning of the projection period the problem of ascertaining what other possible sources of external credit would be available would not be left to the time of the export shortfall. The Report repeatedly emphasizes that the Scheme provides for certainty, adequacy and timeliness in providing the needed assistance to meet the shortfalls.

Then there is the question of the estimated amount of 300-400 million annually which is indicated in the Study as sufficient to start the operations of the Scheme during the first five years. As you know, we said in the Study - and I quote - "the amounts suggested might of course prove inadequate or turn out to be excessive". The approximation that we suggested was the result of a careful analysis and was a considered judgment. A number of representatives indicated their agreement with this

judgment; some doubts were however, expressed by a few. It is conceivable that the countries providing funds might prefer to adopt a different attitude towards the determination of the initial magnitude of the Scheme. However, a more precise judgment of the possible financial demands on the Scheme can only be done after the operative details of the Scheme have been spelled out. The amount we suggested was derived from our conception of the character and scope of the Scheme.

Perhaps it should be emphasized that the contribution of a supplementary financial scheme to the growth of the developing countries cannot be measured only in terms of the absolute amount of funds which might possibly be loaned out to a country under the Scheme. It is the confidence that good development programmes and policies can go forward without fear of the effects of a major upset from unexpected declines in export earnings and the results of the close collaboration between extenders and recipients of development finance that are the most important benefits of the Scheme.

May I approach the end of my remarks with a reference to the nature of the Agency which would administer the Scheme. The Study deliberately did not address itself to this question because it felt that the choice of the Agency could be best made after the exact countries had decided what tasks they wished the Agency to perform. Thus, no significance should be attached in one way or another to the fact that the International Development Association - which was mentioned in the UNCTAD Resolution - was not indicated in the Bank staff Study as the administering agency for the Scheme. We certainly agree, of course, with the point that the Agency is important in the operations of the Scheme.

May I finish by saying that my colleagues and I have been glad to have been of some help to you in coping with your highly important and urgent responsibility and that we remain at the disposal of the Committee for further clarification.

Perhaps I may be allowed to make a personal remark not pertinent to any question raised. I was most glad to hear a number of statements from donor and recipient countries stressing the need to increase the flow of basic development finance and to extend this assistance on more concessional terms.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

SecM66-148

FROM: The Secretary

May 9, 1966

UNCTAD MEETING ON SUPPLEMENTARY FINANCIAL MEASURES

There is attached for information a report on the meeting of the UNCTAD Committee on Invisibles and Financing related to trade which met in Geneva April 13-20, 1966.

Distribution:

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

Report on the Meeting of the UNCTAD Committee on Invisibles and Financing,
Geneva, April 13-20, 1966

Introduction

1. In response to the Recommendation in Annex A. IV. 18, Part A, to the Final Act of the United Nations Conference on Trade and Development, 1964, the staff of the World Bank had prepared a Study entitled "Supplementary Financial Measures", which was transmitted by Mr. Woods to the Secretary-General of the U.N. on December 6, 1965. The Study was referred for consideration to the Committee on Invisibles and Financing related to Trade of the Trade and Development Board. At its first session in December the Committee decided to consider the Bank Staff Study at another meeting to be called for this purpose in 1966.

2. The Committee held its resumed first session in Geneva from 13 to 20 April, 1966 in order to consider the Bank Staff Study. Of the 45 members of the Committee, 38 were present. Fifteen of these were developed countries (or members of "Group B" in the UNCTAD classification), viz., Australia, Belgium, Canada, Finland, Germany, France, Italy, Japan, the Netherlands, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. From less developed countries (or "Group of 31" as the UNCTAD calls them), there were 18 present: Argentina, Brazil, China, Ecuador, El Salvador, Ghana, India, Israel, Lebanon, Mexico, Morocco, Peru, Korea, Trinidad and Tobago, Tunisia, Uganda, the UAR and Yugoslavia. From the socialist countries of Eastern Europe (or "Group D") came the following five: Czechoslovakia, Poland, Rumania, The Ukrainian S.S.R. and the U.S.S.R. The absent members were: Camerouns, Mali, Viet-Nam, Sudan, Congo (B), Tanzania and Kuwait.

3. Mr. J. Everts of the Netherlands was the Chairman of the Committee, and Mr. J. C. Arlia was the Rapporteur. Mr. Raul Prebisch, Secretary-General of the UNCTAD, was also present. The work of the Committee was carried out in plenary sessions, separate meetings of the groups of developed and developing countries, and a continuing process of informal exchange of views among the delegates. The World Bank was represented by Mr. Irving S. Friedman, The Economic Adviser to the President, Mr. Arthur Karasz of the European office, Mr. Paulo Pereira-Lira, and Mr. Bimal Jalan.

4. Mr. Raul Prebisch made the opening statement before the Committee. He welcomed the Bank Staff Study as an outstanding contribution towards solving the serious problems which fluctuations in the external sector pose for developing countries and suggested that the Committee's examination of the Bank staff's concrete proposal marked a transition of UNCTAD from a forum of discussions to an instrument of action. He also agreed firmly that the suggested Scheme was an adequate and feasible solution. In commenting on various aspects of the Scheme, he raised some points for clarification and further discussion which were later picked up by various

delegations. He concurred with the Chairman's suggestion that a small group of governmental experts be set up to elaborate further the Bank Staff Study. He suggested that this group, in the course of its work, might like to give more detailed consideration to the points he had raised.

General Position of Delegations

5. This meeting of the Committee was the first opportunity the countries had in UNCTAD to discuss officially the Bank Staff Scheme. The major lender countries explicitly declared that they had come to the meeting to gather an impression of how the developing countries - the major beneficiaries of the suggested Scheme - reacted to it. Sweden, speaking also for the Scandinavian countries, and the United Kingdom and the Netherlands, explicitly endorsed the Scheme in principle and supported the idea - which had been raised by the Chairman and the Secretary General of UNCTAD - that a limited group of governmental experts should proceed with the further studies needed to bring the proposal to an operational level. The other developed countries expressed varying degrees of support for the proposal at this stage and declared that the final positions of their governments would depend on the results of further detailed studies of various aspects of the Bank staff Scheme. The United States made a brief statement along this line, indicating that the Scheme could be a useful vehicle for the expansion of multilateral aid. France adopted a critical attitude towards the Scheme, in view of its relationship with the French proposal of an extensive "organization of markets" for the primary products. The Belgians emphasized the point that the adoption of the Scheme should be accompanied with an active pursuit of all measures capable of stabilizing the prices of primary products.

6. The developing countries had come to the meeting basically interested in the proposal. Some of them - India, Mexico, Yugoslavia and Ghana - were ready to support the proposal in principle. Ghana stated that, although it considered that the ultimate solution to the problem of export instability would be some arrangement along the lines of the "organization of markets", it welcomed all provisional measures that would help in the meanwhile. Taken as a group, the developing countries were interested in making clear some fundamental assumptions under which the Scheme for supplementary financing would be run. They were pleased to be reassured that (a) supplementary finance was going to be considered in the overall context of development finance; (b) that it was meant to be truly supplementary; and (c) that a way would be found to fulfill the requirements of performance without prejudicing their "sovereignty". They, as well as the developed countries, also wished to pursue a number of technical questions. These they indicated in the course of their statements.

7. Among the socialist countries of Eastern Europe, the U.S.S.R. and the Ukrainian S.S.R. did not support the Bank Staff Scheme. However, Rumania, Czechoslovakia and Poland expressed interest in the Scheme's further study.

8. The development of an unexpected area of agreement between the groups of developed and developing countries by the end of the first two days of general discussions cut short the plenary sessions after the third day of the meeting. The general view was: (a) not only that the problem of unexpected export shortfalls which disrupt development programs was important, but that a practical solution was possible and feasible; and (b) that the Bank Staff proposal did in fact represent, in its essential ingredients, such a practical and feasible solution, although a number of important questions of detail, administration and finance needed further inquiry before an international agreement would be possible. Having reached this position, the delegates then, for the most part, spent their time in informal discussions on the draft of a resolution which was finally adopted.

Main Issues Raised

9. Apart from making general remarks on the merits of the Scheme, the delegations in their statements before the Committee, tended to focus on some particular issues.

10. France raised sharply the problem of compatibility between the Scheme for supplementary finance and a full-fledged "organization of markets" which would try to stabilize the markets for the majority of primary products. The advantage of the latter system over the former would be the direct attack on the real causes of instability in export earnings instead of dealing with its consequences through financial operations. Although France recognized that there was no theoretical incompatibility between the two approaches, it feared that the adoption of the supplementary financing scheme might politically diminish the possibility of arriving at an extensive "organization of markets". The developed countries might be reluctant to contribute both to the financing of the Scheme and to the financing of the necessary buffer stocks. The developing countries also, the French feared, with a guarantee in export receipts such as the Scheme would provide, might be unwilling to take the unpopular measures of production control, export quotas, etc., which would be necessary under the system of market organization. Most developed and developing countries, however, felt that there would be compatibility in the operation of the two approaches and that the adoption of a system of supplementary financing could and should be accompanied by measures in the commodity stabilization field. This view was shared by the delegate of the International Tin Council.

11. Some representatives of the developing countries, although agreeing with the usefulness of the Scheme, would like to see it enlarged to cover other areas of uncertainty. Some delegates of the developed countries, on the other hand, pointed out that the UNCTAD Resolution A-IV-18, which had given rise to the Bank Staff proposal had been the result of arduous negotiations, and that something practical could only be achieved as long as the Scheme remained within its context. Some representatives referred to the question of consideration of import prices, when measuring the extent of the unexpected export shortfall. These delegates supported the possibility suggested in the Scheme that shortfalls could be measured in real terms. They wished to see overcome the practical difficulties in doing this suggested in the Bank Staff Study.

12. The idea of the "policy package", which would be part of a previous understanding between the Agency administering the Scheme and the country and also the subject of continuous consultations between the two parties, was at the center of the Committee's discussions. There was generalized acceptance by the developing countries of development financing as a "joint enterprise" between lenders and recipients, which involved the need for policy understanding between the country and the Agency. This would provide the basis for determining the total flow of foreign financing for its development plan, and not only for supplementary financing. They felt, however, that the idea of policy package would have to be subject to further discussion and specification, with particular attention being given to the possible identification of "technical" and "political" spheres, so as to make it compatible with the requirement of sovereignty. The need to distinguish between technical and political requirements of the plan had been mentioned by Mr. Prebisch in his address. The question was how far the Agency should go in the examination of the policies underlying the plan. For example, should the Agency accept only a commitment by the country that it would generate the needed amount of domestic savings or should it also discuss the specific policies - monetary, fiscal, etc. - needed to achieve the indicated level of savings? Should the Agency discuss investment priorities, e.g., social investment vs. productive investment? Attention was also drawn to the question of how extensive the development plan has to be, before the country could participate in the operations of the Scheme.

13. Many of the developed countries expressed the view that relating performance, as embodied in the "policy package", to the flow of aid, as the Scheme did, should improve the international climate in which the flow of aid takes place. Some of the developed countries also pointed out that the procedure suggested in the "policy package" idea was an extension of the type of relationship which was already being practised with some developing countries. Moreover, the examination of a country's policies was not something peculiar to the developing countries, but applied also to developed countries in the interdependent world of today.

14. There was general acceptance in the Committee that the unexpected export shortfall should be measured from an export projection, which was part of the development plan and was therefore prepared for a corresponding period of time, which is usually five years. Germany and Switzerland raised the question whether they could be made exact enough for this purpose, and what would be the appropriate frequency with which they should be revised. Given the major role which the export projections play in the Scheme, the Committee felt that this was one of the areas in which the Staff Scheme would need further clarification before reaching an operational stage.

15. The treatment of "overages" - export proceeds above the export projection - as suggested in the Bank Staff Scheme, was questioned as being too strict by some developing countries. The United Kingdom, on the other hand, queried whether the "overages" might not be transferred from one planning period to the next. The Scheme's suggested rule is that the net "overages" at the end of the projection period would be at the entire disposal of the country, so as not to discourage export performance by the developing country.

16. The operation of the Scheme as the "residual" lender to cover the unexpected shortfall - after adjustments in economic policies not disruptive of development, the use of reserves and of other sources of credit had been taken into consideration - raised doubts among some delegates from the developing countries. They expressed the fear that the proposal might imply a time-consuming discussion with other sources of credit after the shortfall had manifested itself. In their view, this would cause uncertainties and delays and thus deprive the Scheme of the features of adequacy and timeliness in the provision of assistance, which are essential for the achievement of its objective. Together with the developed countries, the developing countries pointed to the need for coordination of the Scheme with the compensatory financing facility of the International Monetary Fund. Invited by the Committee, the representative of the Fund reported on the changes which are being contemplated in that facility.

17. As to the terms and conditions of the loans which would be made in connection with supplementary financing, there was practically a general consensus that they should be long-term, and adapted to the particular conditions of each country. The Scheme being discussed was viewed as filling a gap in the international financial machinery, by providing long-term finance to substitute for export proceeds which did not materialize. The developing countries stressed that the long-term conditions should be similar to that of "concessional aid". A few of them accepted the point raised by the Secretary General of UNCTAD that supplementary finance should have terms somewhat more lenient than the "basic" development finance which the country had been receiving. Belgium raised for further consideration the suggestion of the International Chamber of Commerce that the loans under this Scheme should not be as long as basic developed finance - something closer to 10 years. The case for shorter periods was made in terms of the need to secure a certain rotation of the funds. This would help to diminish the total amount of resources needed to run the Scheme. A few delegates from developing countries sought further clarification of the possibility mentioned in the Bank Staff Scheme, that under certain circumstances, the Agency could ask for a reimbursement of the loans before maturity.

18. Dealing directly with the amount of financing required for the operation of the Scheme, some countries explicitly accepted the Bank Staff's estimate that \$300 to \$400 million per annum would be needed for its initial phase, subject to subsequent re-examination. A few of them - developed and developing - expressed the view that these sums were perhaps too modest, if one wanted to operate the system with a sufficient margin of safety. There were, however, no views that claimed that the estimate advanced in the Bank Study was too high. A few of the developed countries made clear that, given their budgetary limitations, they could not contemplate contributing to the Scheme, unless a maximum ceiling was established for each country.

19. Although some delegations made passing references to the importance of the role of the administering agency for the success of the Scheme, the Committee did not discuss this matter in the plenary sessions at this stage of its deliberations.

20. At the request of the Chairman, Mr. Friedman addressed the Committee, giving this reaction to the general and specific issues which were raised by various speakers in the Committee, as well as in the private meetings of groups of developed and developing countries ("Group B" and "Group of 31" respectively), to which he had been invited to answer questions related to the Staff Scheme. (A copy of these remarks is enclosed.) Mr. Friedman emphasized that the Scheme's approach was pragmatic and not rigid. He explained the rationale behind various aspects of the Scheme, outlining its scope and the assumptions on which it was based. He agreed with a number of speakers who had emphasized that supplementary finance must be supplementary to and not a substitute for the basic flows of development finance. He pointed out that supplementary financing could only be meaningful in the context of basic development financing; and stressed that the value of the Scheme could not be measured in terms of funds alone, but in the collaboration between donors and recipients, and in the confidence that development plans could go forward unhampered by setbacks from unexpected export shortfalls. He concluded by expressing his satisfaction at hearing a number of delegates from donor and recipient countries stress the need to increase the flow of development finance and to extend this assistance on more concessional terms.

The Outcome

21. At the end of its session - after intensive discussions between and within the groups of developed and developing countries - the Committee adopted a Resolution sponsored by the U. K., Sweden, India, Yugoslavia, Ecuador, El Salvador, Peru, Brazil, Uganda and the U.A.R. by 33 votes to none with five abstentions. The abstentions were from the Soviet bloc, viz. the U.S.S.R., Czechoslovakia, Rumania, Poland and the Ukrainian S.S.R. (A copy of the Resolution is enclosed.) The Resolution recommends, subject to the approval of the Board, that a working party of 13 to 15 governmental representatives be set up with a view to "studying and elaborating" the Bank Staff Study. The members of the working party are: 7 from the developing countries, viz. Argentina, Brazil, Ceylon, India, Yugoslavia, Ghana, and the U.A.R.; 6 from the developed countries, viz. the U.S., the U.K., Sweden, Japan, France and Germany. Two seats have been left open for members of the Socialist bloc in case they wish to participate. Apart from "expressing considerable appreciation for the study prepared by the staff of the IBRD", the Resolution also notes, "the considerable measure of support in the Committee for the concept of supplementary financial measures elaborated in the IBRD staff study". The terms of reference of the group are fairly comprehensive covering almost all aspects of the Staff Study. The Resolution requests the assistance of the staff of the IBRD, the IMF, and other appropriate organizations to help the group. In response to the Chairman's hope that the Bank would continue to help, Mr. Friedman indicated that the Bank staff would continue to cooperate as it had in the past.

22. The inter-governmental group is required to report to the second session of the Committee, which is scheduled for November 1966. The first meeting of the group is expected to take place fairly soon - on or around July 1. The UNCTAD Secretariat's present estimate is that it would take 4 to 6 months for the working group to complete its work, and a detailed scheme may be ready for consideration of the governments in 1967 at the time of the Second United Nations Conference on Trade and Development.

The Economic Adviser to the President
May 9, 1966



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United Nations Conference on Trade and Development

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

REMARKS BY MR. IRVING S. FRIEDMAN, THE ECONOMIC ADVISER
TO THE PRESIDENT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT AT THE THIRTY-SECOND PLENARY MEETING OF THE
COMMITTEE ON 15 APRIL 1966

Mr. Chairman,

I am honoured to have been invited to participate in these meetings and I appreciate this opportunity which the Chairman has given me to address the Committee on some of the issues arising out of this Study that we were asked to undertake by the UNCTAD Conference in 1964.

I might say at the outset that we in the Bank would feel amply rewarded in our efforts if this Study contributes to a fruitful dialogue between developed and developing countries based on a concrete proposal as the distinguished Secretary General of UNCTAD was generous enough to suggest in his most illuminating opening address.

From the very beginning we tried to approach the problem that you had given to us realistically and objectively - our desire was to come up with a practical and feasible solution to a problem which had been one of major concern at UNCTAD. We wanted to devise a Scheme which was both economically sound and capable of achieving international acceptance. We assumed that more than theoretical perfection, what you wanted was a practical proposition based on economic facts, analysis and experience. It is, of course, gratifying and a source of considerable pleasure to us to hear the Secretary General and so many delegates from many countries express the view that the concrete proposal we have put forward provides a sensible practical approach to the problem which all of us are agreed is a major one. I believe that the comments made should assist very much in preparing an improved as well as a detailed and complete Scheme, including financing and administration. On behalf of the Bank staff, I take this opportunity to thank the Chairman and other members of the Committee for the very kind words of appreciation about our efforts, and the warm reception that they have given to our Study.

The questions raised reflect the seriousness and care with which the Scheme was studied. Mr. Chairman, I would like to turn to the questions that were raised by the members of the Committee. This meeting is providing an excellent opportunity for clarifying some of the aspects of the Study and the members of the Committee have focussed on the major aspects.

Part of the difficulty that some of the delegations have felt about some points of language in the Study is probably due to the fact that we presented the Study in the form of a working economic document which tries to put forward economic analysis and an economic scheme, some of which are now, without the pretence of producing a legal text which could serve as the basis for formal international agreement. Some of our nomenclature has been questioned; I agree that the use of particular words should receive careful attention when preparing a formal text setting forth rights and obligations in an international agreement.

Perhaps another difficulty in studying the Scheme arose because we deliberately decided not to enter into detailed consideration of aspects which we believed could more appropriately be dealt with once initial international acceptance was reached on the basic aspects of the proposal.

In responding to the questions raised, it may be useful, Mr. Chairman, if I were to distinguish between those questions which relate to the basic nature of the proposal itself and those that are of a more technical nature in the sense that differences on these do not affect the fundamental character of the Scheme.

I shall take the more general basic questions first which I find easier and briefer to answer by making some general remarks rather than in a one by one question and answer form. Please excuse the length of my remarks and the inevitable repetition of material in our Study.

It was mentioned that supplementary finance must indeed be supplementary to the basic flows of long term development finance. (Incidentally, at this point, I would like to express our gratitude to Dr. Prebisch for giving us the word "basic" which is certainly better than the word "normal" development finance that

we had used in the Study.) We could not agree more. As we said in the introductory chapter of our Study, "the Scheme set forth in the Study is predicated on the assumption that it would be supplementary to and not a substitute for already existing forms of aid". Supplementary finance, as we see it, can be meaningful only in the broader context of development finance. The flow of development finance under existing procedures is a major determinant of the volume of investment in the public and private sectors which a country can reasonably undertake; it helps a country achieve its growth objectives if the country perseveres in its development efforts. The purpose of supplementary finance, as set forth in the Scheme, is to help assure that the achievement of these objectives will not be frustrated because foreign exchange earnings from exports and invisible earnings, where appropriate, do not materialize in the amounts envisaged at the time the investment and aid decisions were made.

Our suggestion, in broadest terms, Mr. Chairman, is to institute a financial machinery which would insure the provision of the needed additional foreign exchange in sufficient time to substitute for the foreign exchange not earned because of the unexpected decline in export receipts which we defined for this purpose to include - I quote - "merchandise and, where appropriate, invisible items". Such additional assistance has only one purpose - the maintenance of good development programmes and policies. This is primarily why the heart of the Scheme that we propose is that the country and the international agency administering the Scheme would reach an understanding upon a development programme and a related set of development policies to be pursued by the country participating in the Scheme - the "policy package" as we have called it in our Study. I had the opportunity to explain what we meant by this idea of policy understandings to the meetings of the "31" and group B, but I think the point is important enough to bear repetition in this Committee. The policy package we have in mind would

be arrived at in the course of close co-operation and exchange of views between the Agency and the country. It is not meant to be frozen at the time of its adoption. Nor can it be defined in general or detailed terms applicable uniformly to a great variety of countries falling into the categories of developing countries. As we said on page 9 of our Study, "the formulation of an agreed policy package should be based on a realistic evaluation of the member's needs and possibilities and a pragmatic assessment of the effectiveness of the proposed measures for achieving the objectives of the development programme. 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". I think this provides the answer to the question whether we might be thinking of a distinct set of policy understandings for the special purposes of supplementary financing scheme alone. We are not. The criteria which we believe should determine the flows of basic development finance would be the ones that determine the flow of supplementary finance. As we all know, development finance embraces all development activity, and this is why the policy understanding cannot be limited to export policies alone, but has to cover the whole gamut of development policy. What is important here is the commitment of the government of a country to good performance, and as we said - and I quote - "good performance, rather widely conceived, would then be the basis for the necessary judgment". (page 39). We do not, of course, anticipate any "control" by the agency of countries' policies. The policy understanding that is reached is arrived at through constant consultations, interchange of knowledge and views. The Agency would be an international one with an international responsibility accountable to the community of nations. It would be set up to do a job and would have no axe to grind except a common interest in development.

I was glad to note that there seems to exist general agreement that the promotion of economic development on the basis of foreign assistance is a "joint enterprise", involving the extenders and recipients of such assistance. It is our belief - and this is a fundamental assumption for the viability of the Scheme - that our proposed understanding on the development programme and related policies can be reached objectively and professionally through international consultation and collaboration. It may well prove that through this mechanism the development effort of a country will command support in a way that a programme put together by the recipient countries themselves cannot be expected to do. Lest I be misunderstood to imply that all developing countries are expected to have highly comprehensive plans for the whole economy before they can join the Scheme, let me definitively state that we recognize and appreciate that in many countries there might not be an adequate statistical base to permit such plans. In some cases the political and social character of the country might make developmental programming inappropriate. In these cases a partial public investment programme may be agreed upon combined with estimates of the likely developments in the private sector to permit the formulation of the policy understanding. The approach of the Scheme is pragmatic and does not purport to have rigid standards to be universally applied in a uniform manner.

Dr. Prebisch has usefully suggested that it may be possible to find a boundary between those policies of a technical nature where this collaboration could take place and the political sphere in which only the wishes of the country itself can be the best judge of the decision to be taken.

As a number of delegates have noted, this type of collaboration is not new. It is already taking place in the relationships of the countries to the existing international bodies. All that we have proposed here derives from our experience in dealing with our member countries. In the meeting of the groups that I had the privilege to attend, I tried to indicate some of the ways in which our own activities in the World Bank group are similar to what is being proposed in the Scheme. Thus, as we say in the Study "the agreement on development programmes and related policies proposed in the Scheme would amount to an extension and strengthening of the existing procedures with member countries rather than the institution of an entirely new process. It would involve, as do these existing procedures, close

collaboration with the work done by the IBRD, the IMF and other international agencies". As some delegations have noted, these procedures of international understanding and collaboration are not peculiar to developing countries alone, but apply to developed countries participating in various international support mechanisms as well.

This brings me to the operational significance that this idea of policy understanding enjoys in the Scheme. The unexpected shortfall for which financing is to be provided under the Scheme has two basic characteristics: (i) it should be potentially disruptive to the development programme of the country and (ii) it should be beyond its control. Operational meaning of these requirements is given through these policy understandings. Instead of having these reached after unexpected shortfalls, the Scheme suggests that they be reached before the adverse movements take place so that the needed assistance can be timely as well as adequate. This permits the adoption of the rule that as long as the country is acting within the mutually understood frame of reference all unexpected shortfalls can be considered beyond the country's control.

The suggestion has been made that the effect of the Scheme might be to deter a country from taking fundamental measures to get at the roots of the problems created by concentration on a few primary products. This, of course, is not the intent, nor, do we believe, would be the effects of the Scheme. As we said in the Study, "the familiar problems of the instability and sluggish growth of the export receipts of developing countries can in the long run only be solved through sustained development and diversification of the production and exports of primary product exporting countries". Mr. Chairman, I need not elaborate this point in this meeting. As we all know, this process of diversification and domestic transformation is a long one. The purpose of the Scheme, as we see it, is to facilitate this long-term fundamental task by eliminating or significantly reducing the adverse consequences in the poorer countries of the chronic uncertainty to which their development process is frequently vulnerable to, i.e. unexpected shortfalls in their export receipts.

To provide a mechanism for financial insurance to deal with unexpected export shortfalls is not to deny the place of other arrangements which might reduce the amplitude of fluctuations in primary products or contribute to the long term goal

of diversification. We agree with a number of delegations and the representative of the International Tin Council who expressed the views that there is no conflict involved here. These approaches are complementary and can be simultaneously undertaken to the greater effectiveness of each other. In fact, our own attitude to these arrangements is unequivocally positive - for example, as some of you know, in collaboration with the International Coffee Organization and the FAO we are ourselves actively involved in a major enquiry into the coffee problem and how careful development might attack the roots of the problem.

A last general point. It has been suggested that the Scheme in its determination of export shortfalls should also take into account unexpected changes in import prices. In working out the Scheme we gave the matter considerable thought. We concluded, and I quote, "ideally, export shortfalls probably should be calculated in real terms, that is after taking account of unexpected movements in import prices, because this would indicate the unexpected change in the ability to purchase a given volume of imports resulting from an unexpected decline in export proceeds". In practice, however, it is often difficult to take this factor into account, because for most developing countries, import indices are not easy to come by. It is quite conceivable that the Agency through experience could develop the statistical base which would permit a thorough inquiry into the nature and the extent of the problem. The Agency might eventually decide, if experience indicated the need and technical difficulties had been overcome, to calculate shortfalls in real rather than nominal terms, which could take care of this problem.

I must emphasize that export shortfalls, including where appropriate earnings from invisibles, is the only uncertainty, however broadly defined, to which our proposal is addressed. There are, of course, a number of other uncertainties associated with the process of development but we believe that the solution of this - the most important uncertainty - would significantly contribute to the growth of developing nations and might well facilitate finding a solution to the other uncertainties, if the international community desires to do so.

With your permission, Mr. Chairman, I would like now to turn to some of the more technical points which were raised during the meeting.

First, there is the question of "overages". Some have suggested that we have treated them too kindly, while others have suggested that we have not treated them kindly enough. It has been suggested that, under present circumstances, countries should be allowed to use overages to finance the import of capital goods. I believe this suggestion results from the fear that the flows of development finance may continue to be inadequate; the use of the overages would thus provide needed foreign exchange. On the other hand, the reason we had for allowing for the deduction of overages from shortfalls during the same projection period was that development financing would be available for good development programmes. In addition, under the Scheme the international community would not be asked to do what a developing country could do for itself in the supplementary financing scheme without injuring its development effort. It is the need to avoid slowing up the development programme because of unexpected decline in foreign exchange availabilities that we are trying to avoid during the projection period.

Questions were also raised about the advisability of the rule that overages should not be carried over from one projection period to the next one. This we did because we felt that it would provide a measure of incentive for developing countries to try harder to take measures to step up exportation. Overages which result in excessive reserves would either reduce the level of long-term finance needed from abroad or make possible some acceleration in growth in future projection periods.

A question was raised as to why not revise export projections every year in order to reduce the deviations from expected trends. Given the usefulness of a long-term development plan or policies, a yearly revision in export projections underlying the investment and procurement decisions would be self-defeating. Investment calculations must be based on export projections and the length of the latter by its very nature must be tied to the former, namely investment calculations. We have therefore suggested that during the operation of the

development plan the underlying export projection should not be subject to revision, except of course when certain intensive structural changes warrant a major restructuring of the investment pattern and development strategy. I may here briefly touch upon the subject of the feasibility of making export projections. Many countries are already used to making projections to provide a basis on which investment programmes can be built. Our own experience in this field has been considerable and shows that usable export projections can be made to establish reasonable expectations for the purposes of the Scheme. Their quality could of course be improved, and as for our own projection work, we are constantly trying to improve our analytical tools as more statistical data are made available and our knowledge of countries deepens.

I now come to the question about the terms of financing. Our view on this subject is a natural by-product of our view that supplementary finance should be treated on the same basis as development finance. Just as over the years we have been arguing for terms of basic development finance to be tailored to the overall financial and economic position of the country as reflected by its debt servicing capacity and other economic factors, in considering the terms of financing for this specific purpose, we felt that same considerations should apply. The UNCTAD Resolution has asked us that terms should be "concessional and flexible". We suggest flexible terms but at the same time the Study explicitly states that "although the terms vary from case to case, the Scheme should be prepared to extend funds on concessional terms in many countries". In this way it would be possible to take into account the necessity of avoiding the possibility that supplementary finance might aggravate the indebtedness problem of a country, and at the same time meet the need for economizing on the use of funds of a concessional nature. In our view it is primarily the capacity of a country to service debt that ought to determine the terms on which it receives all development finance - basic and supplementary.

The characteristics of the Scheme as a residual lender was the subject of consideration by a number of delegates. This is indeed a point which - given the general acceptance of the Scheme - would require detailed examination. There is in most cases some scope for the country to take some measures of a marginal character which contribute to solve the problem of the shortfall without resulting in a disruption of the development programme. We were glad to hear from Dr. Prebisch that he supports this position. There might be the uses of its own reserves - if they were at a level which could be considered above the normal needs - or the recourse to other sources of financing. There might be situations in which, due to the indebtedness position of the country, it might be even considered inappropriate for the country to borrow on short term. The Study reiterates that there would be a close collaboration between the Agency and the other international financial agencies, so that the utilization of their facilities would be integrated in the working of the mechanism of supplementary financing which - being a species of development finance - has necessarily a long-term character, as we have had occasion to point out. This approach - where the access to other sources of finance has been envisaged beforehand - is one of the elements which allow the provision of the needed finance by the Scheme with certainty and speed.

The repeated references to the possibility of a time-consuming sequence in the utilization of other sources of finance which might be available for the financing of the unexpected shortfall have convinced me that some parts of the Report do not convey the idea which is clearly expressed in page 8 of the Study. In the first paragraph of page 8 the Study states "the Agency would have the essential objective of the Scheme, i.e., to provide needed finance with certainty and speed on appropriate terms in order to avoid disruption of development programmes, so long as members act in accordance with agreed development policies". On the same page in the section dealing with the "effective understanding with the Agency" it is specifically noted in (iii) that the use of available reserves and other sources of external credit would be part of this understanding. Since this understanding would be formulated at the beginning of the projection period the problem of ascertaining what other possible sources of external credit would be

available would not be left to the time of the export shortfall. The Report repeatedly emphasizes that the Scheme provides for certainty, adequacy and timeliness in providing the needed assistance to meet the shortfalls.

Then there is the question of the estimated amount of \$300-400 million annually which is indicated in the Study as sufficient to start the operations of the Scheme during the first five years. As you know, we said in the Study - and I quote - "the amounts suggested might of course prove inadequate or turn out to be excessive". The approximation that we suggested was the result of a careful analysis and was a considered judgment. A number of representatives indicated their agreement with this judgment; some doubts were however, expressed by a few. It is conceivable that the countries providing funds might prefer to adopt a different attitude towards the determination of the initial magnitude of the Scheme. However, a more precise judgment of the possible financial demands on the Scheme can only be done after the operative details of the Scheme have been spelled out. The amount we suggested was derived from our conception of the character and scope of the Scheme.

Perhaps it should be emphasized that the contribution of a supplementary financial scheme to the growth of the developing countries cannot be measured only in terms of the absolute amount of funds which might possibly be loaned out to a country under the Scheme. It is the confidence that good development programmes and policies can go forward without fear of the effects of a major upset from unexpected declines in export earnings and the results of the close collaboration between extenders and recipients of development finance that are the most important benefits of the Scheme.

May I approach the end of my remarks with a reference to the nature of the Agency which would administer the Scheme. The Study deliberately did not address itself to this question because it felt that the choice of the Agency could be best made after the exact countries had decided what tasks they wished the Agency to perform. Thus, no significance should be attached in one way or another to the fact that the International Development Association - which was mentioned in the

UNCTAD Resolution - was not indicated in the Bank staff Study as the administering agency for the Scheme. We certainly agree, of course, with the point that the Agency is important in the operations of the Scheme.

May I finish by saying that my colleagues and I have been glad to have been of some help to you in coping with your highly important and urgent responsibility and that we remain at the disposal of the Committee for further clarification.

Perhaps I may be allowed to make a personal remark not pertinent to any question raised. I was most glad to hear a number of statements from donor and recipient countries stressing the need to increase the flow of basic development finance and to extend this assistance on more concessional terms.



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

SUPPLEMENTARY FINANCIAL MEASURES

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

The Committee on Invisibles and Financing Related to Trade:

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

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

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

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

TD.66-923.* After the Resolution was introduced, Ecuador, El Salvador, Peru and Uganda associated themselves as sponsors.

ANNEX

TERMS OF REFERENCE FOR INTERGOVERNMENTAL GROUP

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

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

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

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

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

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

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

SecM66-149

FROM: The Secretary

May 9, 1966

REPORT ON THE MEETING OF THE UNCTAD EXPERT COMMITTEE
ON EXPANSION OF TRADE AMONG DEVELOPING COUNTRIES

There is attached for information a report on the meeting of the UNCTAD Expert Committee on Expansion of Trade Among Developing Countries which met at the United Nations Headquarters on February 16 to March 7, 1966.

Distribution:

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

Report of the Expert Committee on Expansion of Trade among Developing Countries and on Regional Development - UNCTAD

1. A Committee of Experts on Trade among Developing Countries and Regional Development^{1/} established by UNCTAD, met in the UN Headquarters from February 16 to March 7, and prepared a report which was submitted to the Secretary General of the Conference. The Bank sent Mr. Paulo Pereira Lira as an observer to the meetings, at the invitation of UNCTAD.
2. The Report focuses its attention to the question of trade among developing countries; its conclusions and recommendations can be summarized as follows.
3. A determined effort needs to be made by the developing countries to exploit systematically and intensively the opportunities available for trade expansion and economic cooperation among themselves. This will not only foster their economic growth but should contribute to the strengthening of their overall position in relation to the developed countries in world trade.
4. Expansion of trade among developing countries can be promoted through three approaches, which are not mutually exclusive:
 - (a) commercial policy measures not conditional upon commitments regarding the harmonization of other policies;
 - (b) co-ordination of investment or production programmes of one or more industrial sectors;
 - (c) regional integration of national markets.
5. The Group of Experts examines in its report the conditions for a successful implementation of each method, without expressing particular preference for any one of them; it was understood that it was up to the countries concerned to make their choice, in the light of existing circumstances.
6. The Report, however, concludes with recommendations addressed to the developing countries, the developed countries and international institutions and specifically, UNCTAD.

^{1/} The members of the Committee were: Mr. Andre G. Anguile, Minister of State, Gabon; Mr. Jagdish N. Bhagwati, Professor of International Trade, Delhi University, India; Mr. Pavel Eisler, Associate Professor of Economics Prague School of Economics, Czechoslovakia; Mr. Isaiah Frank, Clayton Professor of International Economics, Johns Hopkins University, Washington, D.C.; Mr. Jose Garrido Torres, President, National Bank for Economic Development, Brazil; Mr. Herbert Giersch, Professor of Economics, Federal Republic of Germany; Mr. Nurul Islam, Director, Pakistan Institute of Development Economics; Mr. Benito Legarda, Director, Department of Economic Research, Central Bank of the Philippines; Mr. Kurt Martin, Reader in International Economics, Director, Postgraduate Course in Economic Development, Manchester University, U.K.; Mr. Semei Nyanzi, Chairman, Development Corp., Uganda; Mr. Jean Royer, Consultant, Former Deputy Executive Secretary of GATT, France; Dr. Ignacy Sachs, Associate Professor, Central School of Planning & Statistics, and Director, Centre of Research on Under-developed Economies, Warsaw, Poland; and Mr. Miguel Wionczek, Adviser, Centre for Latin American Monetary Studies, Mexico.

I. As to the developing countries:

- (a) they are urged to submit to the second session of UNCTAD a clear statement of their attitudes with respect to the various methods of trade expansion and economic cooperation;
- (b) they should agree to formulate, under the auspices of UNCTAD, programmes of action (acceleration of existing efforts at regional integration and economic cooperation and the initiation of new schemes aimed at integration and trade expansion) which can be initiated before the third session of UNCTAD, and take into account the most appropriate means for minimizing the risks of discrimination among themselves.
- (c) they should exploit - when members of GATT - such opportunities as are currently provided by the Kennedy Round to lower trade barriers on products of their interest, even though in the short run the results are not likely to be substantial because they would apply only to a limited number of products.
- (d) where they grant, under existing arrangements, preferences to developed countries, they should aim to extend the same treatment to all developing countries.
- (e) they ought to ensure that their fiscal, monetary and exchange rate policies do not inhibit the expansion of their mutual trade and the progress of economic integration.

II. As to the developed countries and international institutions:

While trade expansion measures will have to be undertaken by the developing countries on their initiative, and can be implemented by their own action, there are a number of ways in which developed countries and international institutions could assist their efforts:

- (a) developed countries should take steps with a view to the elimination of preferential arrangements which hamper the efforts of developing countries to expand their trade and economic cooperation, it being understood that transitional measures will have to be worked out to compensate countries who might lose the benefits they now derive from such arrangements.
- (b) the developed countries should not insist on measures of trade liberalization agreed among developing countries to be extended to themselves as of right.
- (c) when aid to developing countries is tied to procurement in the donor countries, the recipient country should be allowed to use aid funds to purchase from other developing countries.

- (d) donor countries and international institutions should consider the provision of additional funds for regional and multinational projects. Attention should be given to the needs of financing of pre-investment and feasibility studies which will allow an adequate flow of those projects.
- (e) special consideration should be given to the cushioning of balance of payments risks resulting from measures of trade liberalization or integration, either through the IMF or through regional payment facilities assisted by donor countries.

III. As to UNCTAD, it is recommended that it should make arrangements for:

- (a) continuation of the studies on obstacles to economic cooperation and integration.
- (b) exchange of experiences among developing countries engaged in these efforts and located in different regions.
- (c) provision, in cooperation with appropriate international agencies and Regional Economic Commissions, of technical assistance to governments and regional groupings undertaking feasibility studies in the context of trade expansion and regional integration.

7. The body of the Report contains some specific references to the expected role of international institutions in the process of trade expansion and integration. Although without naming the World Bank Group, the references are meant to include them. It is generally argued that willingness to provide funds may be an effective means to overcome resistances to trade liberalization and economic-cooperation among developing countries.

8. When dealing with inter-governmental agreements to set up regional industries - under the second approach mentioned in paragraph 4 - in which the capital would be either public or private, the Report states that "international institutions should express their willingness to extend assistance to the Governments concerned".

9. The Report considers that the rate of progress of trade liberalization measures - in the context of regional integration of national markets - depends to a large extent on the success of the existing industries in improving their productivity and in adjusting themselves to a greater degree of competition with other plants in the region. This process of liberalization could be accelerated if financial resources were available from the international institutions.

10. The integration approach will make the region more attractive for foreign private capital. Simultaneously, the regional financing institutions should enable local capital (public or private enterprises) to take advantage of the new opportunities, by encouraging joint ventures. The efforts of the regional institutions along this line could be significantly helped by the international institutions.

11. Still considering the integration process, the Report argues that a function of a "Regional Development Board" would be to seek out and become the advocate for projects on a multinational scale, since national governmental agencies may accord such projects a low priority. "Applications by such Boards should receive sympathetic consideration by international financial institutions".

12. Among other methods of expanding trade, the Report considers the provision or supplementation by the Governments of auxiliary services such as transport, insurance and finance, to enable the exporters of developing countries to compete with suppliers from developed countries. Besides supporting in a rather general way the idea that the governments of developing countries should be able to rely on the assistance of international organizations to provide for or expand their trade promotion activities, the Report more specifically states that, under certain circumstances, the assistance of such organizations may also be necessary to provide part of the financial resources needed to set up export credit facilities.

13. The composition of the Committee of Experts was heterogeneous, reflecting its world-wide representation. The subject under consideration was a large one and the time available for its discussion limited. In addition, the Committee was rather concerned to arrive at a unanimous view. Therefore, it followed that the Report is mainly a general discussion of many questions, rather than a detailed analysis in depth of any of them.

14. Only twice were opposing views allowed to be reflected in the document. First, it was suggested that, for purposes of trade liberalization negotiations, the developing countries might be divided into two or more groups of more advanced and less advanced countries. Specific concessions which a more advanced developing country would grant to a less advanced one would be extended to all such countries, but not to the more advanced developing countries. The experts could not agree on the desirability or practicality of such arrangement.

15. Second, although the experts agreed that preferential trade arrangements among developing countries should be framed in such a way as to minimize discrimination among themselves, they could not agree on the appropriate procedures to handle the exceptions to the general rule, which could not be clearly defined (it was assumed, for example, that a clear definition could be established in the case of integration schemes).

16. It should be added, moreover, that the conclusions and recommendations advanced by the Report represent what, in the view of the Expert Committee, is a balanced assignment of the roles of developing and developed countries in the attempts to solve the problems of trade expansion and economic cooperation among developing countries. There was a definite preoccupation that they should be drafted in such a way as not to lose sight that here was a problem, the solution of which should be considered as an opportunity for the manifestation of "self help" measures among developing countries.