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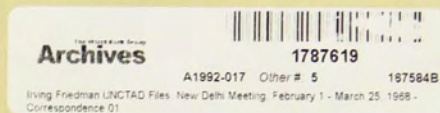
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Friedman UNCTAD Files - New Delhi Meeting / Feb. 1 - Mar 25, 1968
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Headquarters:
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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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INTERNATIONAL DEVELOPMENT ASSOCIATION

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EUROPEAN OFFICE:

4, AVENUE D'IÉNA, PARIS (16^E) - FRANCE

Telephone - 553-2510

April 16, 1968

Dear William:

As you very well know your former organization, CDI, are sponsoring a meeting at the London Hilton from May 8 until 10 to discuss the results of UNCTAD II. (Soper, with whom I have just talked on this matter, called it a "post-UNCTAD meeting" on which I made the bad joke that as long as it is not post-mortem it is alright.)

The meeting will start on May 8 at 9.30 a.m., to be opened by Chairman Peppercorn, thereafter Lord Aldington at about 9.40 a.m., who will be followed by André Philip and probably Ambassador Silveira (Brazil). Silveira was one of the leaders of the "77" in Delhi.

In the afternoon, John Butler (the economist of the Stikker report) will be the first speaker, to be followed by myself. They expect me to talk about the financing of world trade.

On May 9, Maxwell Stamp will be one of the speakers, to be followed by Ernest Parsons (OECD).

The meeting will probably close at about lunchtime on May 10.

With kind regards,

Sincerely yours,

Arthur Karasz

Arthur Karasz

Mr. William Clark
Director, Information Department
International Bank for
Reconstruction and Development
Washington, D.C.

1968 APR 16 PM 3:11
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INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

April 23, 1968

This was prepared for our briefing
for UNCTAD. Algiers Charter and main
agenda items of Conference were considered.

Specifically, reference to Algiers
Charter recommendations at pages 4-5.

N. A. Sarnig
c c

Mr. Friedman

ROUTING SLIP

Date
January 10, 1968

OFFICE OF THE PRESIDENT

Name	Room No.
Mr. Demuth	845
Mr. Kamarck	800
Mr. Karasz	845

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

Remarks

The attached has been prepared by Mr. Sarma as a basis for discussion on preparation for the UNCTAD II meeting.

*Enclosed papers from
Sarma*

From Irving S. Friedman

Introduction

The second session of the United Nations Conference on Trade and Development will be held in New Delhi from February 1 to March 25, 1968. A provisional agenda for this session was adopted by the Trade and Development Board at its fifth session held in Geneva in August, 1967. Apart from the plenary sessions in the initial and closing stages of the Conference, the discussions will take place mainly in five committees (committees of the whole); there may be one or two working groups as well. The five main committees will deal with the following:

- (1) Commodity problems and policies;
- (2) Expansion and diversification of exports of manufactures and semi-manufactures of developing countries;
- (3) Growth, development finance and aid (synchronization of national and international policies);
- (4) Problems of developing countries in regard to invisibles, including shipping; and
- (5) Trends and problems in world trade and development, including review of implementation of UNCTAD I recommendations, and the world food problem.

Commodity Problems

With the breakdown of the Cocoa Conference, and the difficulties facing sugar and natural rubber in particular, the discussions on commodity problems in Committee I may tend to become argumentative. The operation and financing of buffer stocks, as a main element of international commodity arrangements, as well as the more general proposal of the French for market organization with a view to commodity stabilization, will figure prominently in the discussions. Our position so far has been that pre-financing of buffer stocks is not within the purview of World Bank Group activities; World Bank assistance is for furthering diversification and economic development. (Reference to the Joint Coffee Study.) However, following the Rio Resolution on commodity stabilization, studies have been taken in hand, cooperatively, in the Bank and in the Fund; it is not possible at this stage to anticipate the conclusions of these staff studies or the decisions that the Management and the Board may ultimately take on the matter.

General Preferences

A general system of trade preferences by all industrialized countries, on a non-reciprocal basis, is the major subject on the

agenda of Committee II. During the course of 1967, discussions have taken place in the OECD on the subject; while there are still several difficulties of a technical and policy nature, the donor countries have moved away in principle from the reservations they had on the subject at UNCTAD I, and there is now a basis for agreement. (We have little to say on this.)

Growth and Aid

In Committee III, dealing with development finance, substantial discussion and reporting may emerge on growth and performance, essentially in terms of a joint endeavor of donors and recipients. Developing countries recognize that the main responsibility for their development rests with them. Representatives of donor countries may be expected to argue for some spelling out of the "discipline of development." The spokesmen for some developing countries may propose impartial expert evaluation of plans and performance on a continuing basis. However, in the discussions on supplementary finance, developing countries as well as donors indicated a willingness to look to the regular work of existing (financial) institutions, as well as the coordinating procedures of consortia and consultative groups, for the evaluation of development programs and policies.

In regard to development aid flows--the other main aspect of development strategy--the representatives are likely to engage themselves in discussing the one per cent target--what the denominator should be (i.e., whether the target should be one per cent of net national income or of gross national product), whether the percentage should be raised, and similar questions--with little likelihood of any fruitful consensus being reached. The discussion will be also about the feasibility of a separate target for official flows; here again, questions will be raised of net amounts involved--and whether the amounts should be net of amortization only or also net of interest charges. A number of donor countries are not in favor of setting a separate target for official aid. However, mainly because of the lack of reliable data on private capital flows and, in any case, since it is recognized that little can be done through government action in regard to private capital flows, some of the donor countries (the Netherlands, Canada and the Scandinavian countries) may be inclined to have a closer look at possible guideposts separately for official aid.

Leaving aside the definitional and computational complexities of such matters, the main question here relates to whether donor countries will provide enlarged resources for the growth of LDCs. This, in turn, raises the question of an assessment of the capital requirements of LDCs. References will be made to our own estimate of \$3 - 4 billion of additional capital requirements, related to absorptive capacity of LDCs, and we will be expected to contribute to these discussions.

IDA Replenishment

If agreement on IDA replenishment has not been reached in principle before the Conference, this will be a main area of concern. That IDA replenishment on a substantial scale is of vital importance is recognized all around; agreed resolutions on this were adopted at ECOSOC (August, 1967) Trade and Development Board of UNCTAD (September, 1967), and United Nations Second Committee (October, 1967). LDCs have extended solid support to it in recent months.

Supplementary Finance

Supplementary financial measures is a separate item on the agenda, and is likely to come to the fore as a main item for consideration. The Intergovernmental Group Report was adopted in November, 1967, and has been forwarded directly to UNCTAD II. Sweden will actively urge agreement on the principles of a scheme broadly on the lines of the Bank Staff proposal; LDCs and some developed countries are likely to sponsor a joint resolution on the subject. On the basis that finance would not come up for active consideration, and on the clear understanding that financial commitments will not arise under SFM till 1970 or so, there seems scope for negotiating an agreement in principle at UNCTAD II. The fact that LDCs openly acknowledge the need for, and the appropriateness of, policy understandings and performance evaluation, is a distinct gain out of SFM discussions for the whole field of development finance.

Debt Problems

Another important subject relates to the external debt position of LDCs and terms and conditions of assistance, including difficulties arising from aid-tying. At the policy level, we may restate the view that debt rescheduling can only be on an individual-country basis, and that no across-the-board arrangements are possible. As for the factual position, the effort that is being done by the Bank Staff for collecting and collating the data could be described. A statement on the interest rate structure of the World Bank and IDA credit terms, as also the possible scope for redefining the procedures and criteria for IDA credits subsequent to IDA replenishment, might be useful, if feasible at the time.

Other Subjects of Interest to the Bank

Other subjects, in which the Bank Staff have been involved and may be called upon to make brief statements, are:

- (1) Horowitz proposal: The donor countries generally are disinclined towards this proposal, and the Bank Staff view essentially remains as it was put forward in our study.

- (2) Suppliers' credits: In the Bank Staff Study the need for regulation on both sides was noted; it was also indicated that a secretariat within the OECD could help on the creditors' side. The Algiers Charter proposes an intergovernmental group to deal with all aspects of commercial credits including suppliers' credit. The DAC members themselves see no need to set up any new international machinery to cope with the problem, but they may suggest more effective use of existing institutional arrangements. It may be noted that discussions have been initiated between officials of the Bank and the Berne Union to explore possibilities of cooperation for exchange of information and consideration of lending policy matters.
- (3) Multilateral investment insurance scheme: Reference may be made to studies by DAC and IBRD. Some account of current discussions in the Bank regarding machinery and procedures would be useful.
- (4) Convention on Settlement of Investment Disputes between States and nationals of other countries: This has come into force, and a Center for Settlement of Disputes has been set up. An account of the role of the Center, and the latest position in regard to membership, etc., would be useful.

Algiers Charter and Bank Group

The Algiers Charter also put forward the following recommendations, and these viewpoints may be stressed by some of the LDCs at the Conference:

- (a) Developed countries and financial institutions should extend and intensify their support to regional development banks;
- (b) IBRD should be made a Development Bank for developing countries exclusively. Repayment by developed countries of loans in advance of maturity should be secured, and the funds should be used to augment resources of IBRD and IDA to finance development of developing countries;
- (c) There should be no discrimination by international lending institutions against the public sector, in particular in industry;

- (d) Developed countries and international credit institutions should make investments in infra-structure in tourism in developing countries; and
- (e) International financing agencies should give priority to technical and financial assistance in connection with the special problems of the trade and development of land-locked developing countries--in particular with the development and improvement of their transport infra-structure.

Brief statements along the following lines may be in order on the above:

- (a) Our cooperative attitude toward regional development banks, in providing debt statistics service, in pre-investment surveys, and in other ways.
- (b) Now the IBRD is virtually a development bank for LDCs and there have been few loans in recent years to developed countries, though in earlier years sizeable amounts were provided to them for reconstruction and development. Prepayments of outstanding loans by developed countries do not seem feasible.
- (c) A large proportion of IBRD and IDA resources are directed to infra-structure investments in LDCs; these are largely through the public sector.
- (d) The construction of hotel facilities and such other assistance for tourism in appropriate cases is not ruled out. IFC has commenced doing this (e.g., loan and equity investments in a company in Kenya for the purpose).
- (e) In considering projects proposed by the LDCs, the World Bank Group takes due cognizance, in its normal methods of project appraisal and evaluation, of the importance of transport infra-structure for the trade and development of the land-locked countries.

N. A. Evans
Jan 9.

OFFICE MEMORANDUM

TO: Mr. Michael L. Hoffman

FROM: Irving S. Friedman

SUBJECT: UNCTAD II - Supplementary Finance Resolution

DATE: April 12, 1968

This is rather delayed but I would like to comment on Karasz's letter to you of April 3, 1968.

In his comments on the Supplementary Finance Resolution, to use his words "the enclosed text speaks for itself" -- I don't know whether you are aware but the enclosed text very much does not speak for itself, and that Prebisch made a formal statement for the record reporting what happened in the high contact group on supplementary finance and the interpretation that was being given to it.

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



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April 3, 1968



Mr. Michael L. Hoffman,
Associate Director,
Development Services
Department,
I. B. R. D.,
Washington D. C. 20433.

Dear Mike,

As you probably know, I left Delhi two days before the very end of the Conference. (The Conference should have ended on March 25th. First, it was extended for 24 hours, thereafter for another 72 hours; it finally ended on March 29th at 10.00 p.m.)

The last subject to have been agreed upon was the Package Deal on Financing. This has become such a difficult matter that the "highest level top negotiators" had to go beyond the Everest level to find some field of agreement. I enclose Document TD/L.28 dated March 27th, which contains the agreements reached. They are the following:

1. Terms of Aid and External Indebtedness
2. Mobilization of Internal Resources (Performance)
3. Compensatory Financing
4. Private Capital
5. The Volume of Aid
6. Supplementary Financing
7. Problems Relating to the International Monetary System (Special Drawing Rights, etc.).

The above items 1 to 5 (and 7) had been described in previous reports of mine. As far as 6. is concerned (S.F.M.), the enclosed text speaks for itself.

You will not find in the Package Deal a draft resolution on the World Bank, although it had been discussed in many meetings during the Conference. As you may have seen in my papers, the original draft of this resolution contained several paragraphs which

Attachments to Memoirs for Board Distribution

Mr. Michael L. Hoffman

- 2 -

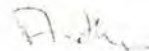
April 3, 1968

disturbed me a little. Fortunately, these paragraphs were eliminated in the definitive draft resolution. Nevertheless, on the last day of the Conference, agreement was reached that, instead of putting the draft to the vote, it would be transmitted to the next meeting of the Trade and Development Board for further consideration. I have the feeling that some developed nations were hesitant to adopt the resolution and Prebisch himself was not too happy with it either.

As soon as I receive the definitive documents of the Conference (Rapporteurs' Report and its Annexes), I shall try to prepare a more comprehensive paper on the entire Conference.

With best regards.

Sincerely yours,



Arthur Karasz
Director, European Office

Enclosure

cc: Mr. R. Demuth,
c/o Paris Office,
(with attachment)

CONFIDENTIAL

SecM68-94

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:

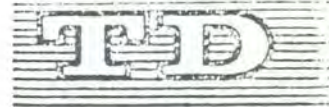
- I. Improving the Terms and Conditions of Aid
Alleviating the Problems of External Indebtedness.
- II. Improving the Mobilization of Internal Resources.
- III. Compensatory Financing Facility.
- IV. Increasing the Flow of Private Capital to
Developing Countries.
- V. Aid Volume Target.
- VI. Supplementary 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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LIMITED
TD/L.28
27 March 1968
Original: ENGLISH

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 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 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 relent 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/Suppl.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} ~~desired~~ 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.

February 23, 1968

Export Shortfalls and Other Causes of Disruption

1. Some members of the Intergovernmental Group wanted a comparison of export shortfalls with other factors which might lead to the disruption of development programs. These other causes may be listed as:

- (a) Shortfalls from expectations in Aid Flows;
- (b) Shortfalls from expectations in Private Capital Flows;
- (c) Unexpected Increases in Consumer Imports;
- (d) Unexpected Increases in Prices of Imports.

We have discussed the question of import prices in the framework of our Supplementary Finance Study. Extending the coverage to increases in imports would raise the cost of the Scheme.

2. The attempt to make a quantitative assessment of the relative magnitude of export shortfalls compared with other causes of the disruption of development programs has not been possible. Within the context of the Study on SFM, the relevant concept of shortfalls is the one which related actuals to expectations. With respect to export shortfalls, we had an available body of experience in the Bank which we could use to give some statistical measure to this concept. Not only did we in the past, from time to time, observe in individual country experience the impact of variations and shortfalls in export earnings on a country's development, but we also had data on export projections for several countries for a number of years, which we could use for the purposes of our Study. There are no comparable data pertaining to expectations in respect to aid and private capital flows. We can only observe the actual flows, and year-to-year fluctuations therein. The direction and volume of aid flows is

determined by governmental decisions, themselves subject to various extraneous influences. No reliable data are available about private capital flows, and the movements have been highly erratic; we could, of course, have defined such expectations in an artificial manner, but the results would depend so crucially on the manner of deriving such expectations that the results would not have much validity.

3. We have, therefore, to fall back on a qualitative assessment of the problem. Some relevant considerations in such a qualitative assessment are:

- (a) Export earnings constitute the major part of the foreign exchange receipts of the less-developed countries, compared with the other categories of receipts.
- (b) Furthermore, export earnings are the chief source of foreign exchange for most of the developing countries individually, whereas other types of foreign exchange receipts have been highly concentrated in particular countries, especially in the case of private capital flows.
- (c) In considering "disruption" of development programs, the significant factor is not instability in the sense of fluctuations around a trend, but rather the extent to which actual flows diverge from expectations. Compared with export earnings, it may be observed that official aid and private capital flows to individual countries have been more unstable over time; however, this does not necessarily mean that there are greater shortfalls from expectations in the case of such flows. In the case of

official and private capital flows, negotiations are generally undertaken in advance of actual receipts and are also undertaken by agencies in the developing countries more directly concerned with the making and implementation of investment plans so that ~~it is likely that~~ any significantly large changes in these receipts are likely to be foreseen earlier than is the case with export earnings.

- (d) Export shortfalls have been a clear causal factor in bringing about reductions in investments. It is not as clear that reductions in inflows of private capital are always causal factors since at times they seem to be more the consequences of prior decisions to reduce investment. However, the conclusion is not to be drawn that unexpected reductions in foreign aid and in inflows of private capital are not also important potential causes of disruption.

4. It is also useful to consider the relevance of an assessment of the various causes of disruption for policy action. Even if shortfalls in official and private flows were as important in magnitude and disruptive effect as shortfalls in export earnings, it is difficult to imagine what international action can be taken to deal with such shortfalls, especially so in regard to inflows of private capital.

5. In conclusion, the major fact one has always to keep in mind is that their own export earnings constitute the bulk of the foreign exchange receipts of LDCs - some 85 percent. Given the close relationship which exists between investment decisions and foreign exchange availabilities, it is obvious that shortfalls in these earnings can have an importantly disruptive effect on the development process.

February 23, 1968

Supplementary Finance and Commodity Stabilization Studies

1. The Board of Governors of the Bank adopted a Resolution at the 1967 Annual Meeting in Rio de Janeiro calling on the President of the Bank to have the Staff prepare a study on the problem of stabilization of prices of primary commodities, in consultation with the Fund Staff. A parallel resolution was adopted for the Fund. The study relates to the problem, its possible solutions and their economic feasibility. This important study has been taken in hand in the Bank by a task force headed by the Bank's Director of Special Studies, cooperatively with the Fund. The intention is to complete the Report, if possible, early enough so as to permit consideration by the Governors at the 1968 Annual Meetings.
2. It is not possible to indicate at this time what the conclusions of the Report would be; or what comments and recommendations our Executive Directors would make in transmitting it to the Board of Governors. We may, however, consider the relationship of commodity stabilization measures, in a general way, to supplementary financial measures.
3. It is, of course, well known that the volatility, uncertainty and slow growth of export earnings from their primary commodity trade has been a serious problem for a number of developing countries, especially because of their great dependence on export earnings for financing their development efforts. Several approaches have been under consideration to meet this problem. For some aspects of the problem, the approach through international agreements seems to be most suitable. For example, such agreements would assure stability of prices of commodities within a certain range, and may also give better access to certain markets. The approach through the

IMF Compensatory Financing Facility is useful to even out the short-term fluctuation of the total export earnings of a country. Finally, the proposal for Supplementary Financial Measures would be useful to assure a given level of foreign exchange earnings to a country and thus enable it to program its development efforts more efficiently over a longer planning period, by providing longer-term assistance in the event of unanticipated export shortfalls which might disrupt a country's development program.

4. In view of the different approaches to the problems arising from the commodity trade of the developing countries, it is useful to clarify the relationships among them. In some ways, these approaches deal with the same problem in different ways, but in some other ways they deal with quite distinct aspects of the problem. Thus, progress in negotiating commodity agreements is likely to enable countries to have more accurate expectations of their export earnings, on the basis of which to formulate their development programs, and hence will reduce the cost of supplementary financial measures. This effect would depend on the number of commodities subject to agreements and the operative features of such agreements, especially in regard to export volume. Insofar as commodity agreements on individual commodities seem to take a considerable time to negotiate and conclude, this effect would be correspondingly postponed. In this connection, there are two further points which may be mentioned. Firstly, which commodity agreements may make future prices more predictable, they would not have the same effect on export earnings in so far as they are due to volume changes. Also, even if a large number of commodity agreements are successfully concluded, they are unlikely to cover the total earnings of a country from all its exportable commodities (including invisibles) so that there would still be need for the approach through supplementary financial measures.

5. The fact that commodity agreements and supplementary finance deal with inter-related problems has sometimes been interpreted to imply that the adoption of supplementary financial measures might reduce the efforts to achieve commodity agreements. This is unlikely to happen for a number of reasons. One reason is that primary product exporting countries have certain advantages in earning their foreign exchange from their own exports, subject to commodity agreements, rather than in obtaining foreign exchange from supplementary financial measures as a loan, even if these loans are provided on concessional terms. Secondly, it must be remembered that supplementary financial measures are only concerned with the extent to which actual export earnings are close to their expected values, and not the price behavior of particular commodities.

6. Just as, more generally, trade promotion and development aid are not mutually inconsistent, commodity agreements and supplementary finance complement each other and are both needed. Accordingly, one does not prejudice or prejudice the other, and action on one need not await studies and consequential measures in the other direction. In fact, in a pragmatic framework, we can visualize commodity agreements for some major commodities in which developing countries are the chief exporters, and for the rest devise appropriate financial arrangements to safeguard the levels of total export earnings of developing countries.

The attached news story appeared on page 11 of the February 12, 1968 issue of:

THE NEW YORK TIMES
 THE WALL STREET JOURNAL (NEW YORK)
 THE JOURNAL OF COMMERCE (NEW YORK)
 THE WASHINGTON POST (D.C.)
 THE EVENING STAR (WASHINGTON, D.C.)

THE CHRISTIAN SCIENCE MONITOR (BOSTON)
 THE TIMES (LONDON)
 THE FINANCIAL TIMES (LONDON)

U Thant Speaks

*UNCTAD Told World
 Can't Wait for Peace*

Special to Journal of Commerce

NEW DELHI, Feb. 11—United Nations Secretary General U Thant warned today the world cannot afford to wait for peace to make a cooperative effort to aid developing nations.

"We cannot continue indefinitely to postpone the consideration of action in the hope of better times in the political arena," U Thant said, making reference to the war in Vietnam and the North Korean seizure of the Pueblo.

"The political and economic strains in the world are interdependent and we must move forward on both fronts together if we are to achieve satisfactory results in either," U Thant said.

He referred to the "tragedy" of the Vietnam War, which, he added, "limits the freedom of action of some governments."

Postponement Cited

The fact that U Thant was addressing the U.N. Conference on Trade and Development (UNCTAD) Friday instead of last week gave emphasis to his admission there had been a number of recent setbacks in international relations and "evidence of serious uncertainty about the future of the world's trade and payments system."

U Thant had been scheduled to address the conference opening session but was delayed by the Pueblo incident.

The president of the World Bank, George D. Woods, said it was time to stop developing development groups and start developing countries.

"It is time, I suggest, for us in the international organizations to take an antiproliferation pledge: to reserve the creation of new entities for functions that clearly have no possible home among the many rooms offered by the international family," he said.

Leaders Scored

Mr. Woods indicted the leaders of both rich and poor nations for failing to do enough for development.

He said in some cases high income countries used aid to low income countries as an aid to themselves, financing export sales and buying military support.

He criticized leaders of some low income countries for failing to lead — for wasting public money, indulging in personal aggrandizement and trying to "evade responsibility by blaming internal problems on other countries."

Mr. Woods called for new perspectives on aid to keep the world from "intolerable economic and political fission."

Cooperation Urged

The secretary general called on nations to provide economic cooperation "across political frontiers."

He said he was struck by the opportunities which exist for joint approaches by Communist and private enterprise countries to the problems of development.

"Naturally there are bound to be differences of view between them as to the broad strategy of development and these matters will continue to be discussed during the years ahead. But I believe there is some basis for saying that the ideological content of the debate over the development problem need no longer deter us from entering into specific schemes of cooperation across political frontiers," U Thant said.

He noted that private enterprise cooperates with socialistic enterprise in Europe and said it is not unrealistic to foresee such cooperation in less developed parts of the world.

Logical Step Seen

"The time is perhaps approaching when socialist participation in multilateral aid could be considered as a logical step forward from their present bilateral endeavors," he said.

He noted that this participation would depend on a number of conditions, including the removal of barriers to East-West trade.

He expressed optimism that UNCTAD could work out the problems of trade barriers and aid.

"The real question is not whether development will occur but how it will occur and within what international framework," he said.

INFORMATION DEPARTMENT

The attached news story appeared on page 26 of the 10th February 1968 issue of:

THE NEW YORK TIMES
THE WALL STREET JOURNAL (NEW YORK)
THE JOURNAL OF COMMERCE (NEW YORK)
THE WASHINGTON POST (D.C.)
THE EVENING STAR (WASHINGTON, D.C.)

THE CHRISTIAN SCIENCE MONITOR (BOSTON)
THE TIMES (LONDON)
THE FINANCIAL TIMES (LONDON)

Woods Assails Progress Lack In Wiping Out World Poverty

By Joe McGowan Jr.
Associated Press

NEW DELHI, Feb. 9 —

World Bank president George Woods took both rich and poor nations to task today for failing in respective efforts to wipe out world poverty. He said hopes have dwindled toward despondency in large areas of the world.

Woods, who is being succeeded by U.S. Defense Secre-

tary Robert S. McNamara told the U.N. Conference on Trade and Development — UNCTAD — developing nations have failed to feed themselves, to curb population growth, to maintain adequate capital assets, to prevent the huge waste of food and to attract foreign investment.

Developed nations, he said, have failed to assign proper priority to funds to help developing countries and have used bilateral programs of assistance to finance export sales. They have sometimes used aid so wrongly that "it may ac-

tually have retarded economic growth," he said.

Woods said that after 20 years of independence in India, home of one-seventh of the human race, "many millions of people have yet to experience more than the feeblest manifestations of progress."

U.N. Secretary-General U. Thant told the conference foreign aid is an investment in the world's future that will directly benefit developed and developing countries alike.

The period since the first UNCTAD meeting in Geneva four years ago has been largely "a period of frustrated hopes," Thant said.

He deplored the war in Vietnam "not only as a tragedy in itself" but also a limitation on "the freedom of action of some governments and even on their ability and will to attend to other matters."

Admitting that international economic relations have suffered recent setbacks, apparently a reference to the devaluation of the British pound and the run on gold, Thant said the world cannot afford to postpone economic considerations until the world political climate brightens.

"A gradual approach to the problem (of AID) would surely be acceptable to all," he said, "so long as we are moving in the right direction."

Defending AID, Thant said: "In the short run it creates an additional purchasing power for the exports of donor countries for the exports of donor countries. More importantly, in the long run it helps accelerate the growth of developing countries and thus builds markets for the future—markets which will be able to pay their own way."

Thant met with the North Vietnamese consul general in New Delhi, Nguyen Hoa, Thursday night to talk over the situation in Vietnam, a U.N. spokesman said only that "the talks were useful."

INFORMATION DEPARTMENT

The attached news story appeared on page 912 of the 10th February 68 issue of:

THE NEW YORK TIMES
THE WALL STREET JOURNAL (NEW YORK)
THE JOURNAL OF COMMERCE (NEW YORK)
THE WASHINGTON POST (D.C.)
THE EVENING STAR (WASHINGTON, D.C.)

THE CHRISTIAN SCIENCE MONITOR (BOSTON)
THE TIMES (LONDON)
THE FINANCIAL TIMES (LONDON)

Aid in a Fix

Foreign Aid is in a terrible fix this year. Vietnam has given all foreign involvement a sour taste. After a generation of giving, the President must still warn, in his new foreign aid message, that a world food crisis of "disastrous proportions" looms in the 1980s. Efficiency and even integrity in aid continue to be elusive. Too many Congressmen are willing to use aid as a spit on which to roast the Administration.

Moreover, the Administration seems unprepared to wage the struggle necessary to get a decent aid bill. It feels compelled to conserve its political capital for Vietnam and the riots. The decision appears to be that it is too troublesome and risky to try to muster support for aid in the country at large.

Instead, the Administration has pared aid to the bone, pared it so thin, in fact, as to frighten anyone aware of the real scale of need. The United States and other donors are in what World Bank President George Woods, speaking in New Delhi yesterday, described as "the worst possible position: they are giving amounts of aid sufficiently large to irritate their own national legislatures, but too small to help accomplish real economic progress."

The Administration has also clipped off in advance the rough policy edges that scrape on Congress: multi-year authorizations, requests for new spending authority, arms sales (that will come separately). Unclipped is the rhetoric—"self-help," "fate of freedom," "no waste," the bows to multilateralism among donors and regionalism among recipients.

The program has had to be trimmed mercilessly to the shape of the Nation's balance of payments deficit. Indeed, it is a bit embarrassing that the rest of the world must hear the Administration assuring Congress that previous recipients are paying back this year more dollars than we are paying out. Again Mr. Woods: "Up to now, bilateral programs of assistance have had as one of their primary objectives helping the high-income countries themselves; they have looked toward financing export sales toward tactical support of diplomacy, toward holding military positions thought to be strategic."

The specifics of the program, as Congress has repeatedly found, are difficult to assess. Family planning is moving; fertilizer looks promising; fish protein may be a good bet. Generally the emphasis is on buying stability. Funds are being concentrated on places and projects where results seem particularly necessary or possible.

In all, the foreign aid program planned by the President is a minimal affair. It cannot be considered as more than a holding operation designed to buy time until Congress will accept the kind of sweeping program that American interests require.

The attached news story appeared on page 45 of the Sept. 10, 1968 issue of:

THE NEW YORK TIMES
 THE WALL STREET JOURNAL (NEW YORK)
 THE JOURNAL OF COMMERCE (NEW YORK)
 THE WASHINGTON POST (D.C.)
 THE EVENING STAR (WASHINGTON, D.C.)

THE CHRISTIAN SCIENCE MONITOR (BOSTON)
 THE TIMES (LONDON)
 THE FINANCIAL TIMES (LONDON)

BANKER DEPLORES FAILURES ON AID

Rich and Poor Nations Also Assailed by U Thant

By TERENCE SMITH
 Special to The New York Times

NEW DELHI, Feb. 9—Harsh words for the rich and poor nations of the world were delivered today by George D. Woods, president of the World Bank.

Mr. Woods, who is to be succeeded in the post next month by Robert S. McNamara, the United States Secretary of Defense, spoke before delegates of 132 nations here. They are attending the United Nations Conference on Trade and Development.

U Thant, the United Nations Secretary General, also had severe words to say.

In the bluntest address made at the conference so far, Mr. Woods charged that the developing nations were guilty of waste and inefficiency, while their leaders were frequently interested only in personal aggrandizement.

Proliferation Decried

Mr. Woods was also hard on international bodies designed to promote world trade. "They have multiplied to a point verging on disarray," he said. "It is time for us in the international organization to take an anti-proliferation pledge."

Mr. Thant, delivering the speech he was scheduled to give at the opening of the conference a week ago, said that the period since the first United Nations conference on Trade and Development, in Geneva four years ago, had been one of "frustrated hopes."

The one notable success, he said, had been the recently completed Kennedy round to cut tariffs. But these talks, he suggested, had been agreed upon principally because they will benefit economic relations between rich nations.

"The developed world continues to regard its economic relationship with the less-developed world as a one-sided affair in which concessions are granted but not received," he said.

Common Failure Cited

Mr. Woods, pointing to the common failure of both the rich and the poor countries to achieve the goals laid down in the first conference four years ago, said: "The accomplishments in development and development finance have fallen far short of our aspirations."

"The prosperous nations," he said, "have been irresolute and to some extent even irrelevant in their efforts to assist the

Continued on Page 53, Column 4

BANKER DEPLORES FAILURES ON AID

Continued From Page 45

less-developed countries. On the other hand, the underdeveloped world is very far from being in a position to say that it has done all it could to help itself."

The outgoing president of the World Bank was critical of the aid policies of the rich countries which he said reflected "their own narrowest concerns." He suggested that the primary motive of most of the bilateral agreements between the rich and poor nations had been the interest of the rich countries themselves.

In most of the developing countries, he said, the growth patterns are characterized by the paradox of acute food shortages and rapid population increase.

The Secretary General called on the conference to "go beyond the routine expression of entrenched positions" to reach negotiable solutions.

Mr. Woods, discussing the shortage of resources for international development, found a bright note in discussions leading to replenishment of funds for the International Development Association.

February 7, 1968

My dear Shenoy:

Thank you for your letter of January 19 and invitation to lecture at the New Delhi National Defence College.

My plans, at the moment, are to leave here probably on February 25 and return week ending March 9. As much as I would be delighted to address the college members I feel that the UNCTAD discussions at that time will require my whole attention. Please express to Rear Admiral M.K. Heble my regrets. (Incidentally, I have not heard anything from Mr. Gilmartin about this.)

Hoping to see you in Delhi - my present plans are to stay at the Ashoka Hotel.

With kind regards,

Sincerely,

Irving S. Friedman

Mr. B.R. Shenoy
Director & Professor of Economics
University School of Social Sciences
Gujarat University
Ahmedabad-9, India

ROUTING SLIP		Date February 6, 1968
OFFICE OF THE PRESIDENT		
Name		Room No.
Mr. Sundrum / Mr. Jalan		
Mr. Hoffman / Mr. Consolo		845
	To Handle	Note and File
	Appropriate Disposition	Note and Return
	Approval	Prepare Reply
	Comment	Per Our Conversation
	Full Report	Recommendation
XX	Information	Signature
	Initial	Send On
Remarks <p style="text-align: center;">Please return as soon as possible.</p>		
From <p style="text-align: center;">Irving S. Friedman</p>		

I N C O M I N G C A B L E

DATE AND TIME
OF CABLE: FEBRUARY 6, 1968 1200

LOG NO.: WU 4 / 6

 TO: INTBAFRAD

 FROM: NEW DELHI

R O U T I N G	
ACTION COPY:	MR. FRIEDMAN
INFORMATION COPY:	
DECODED BY:	

TEXT:

5 FOR FRIEDMAN

GERMAN MINISTER SCHILLER AND NETHERLANDS MINISTER BLOCK MADE

USEFUL REFERENCES TO SUPPLEMENTARY FINANCE IN GENERAL

STATEMENTS TO PLENARY LETTER FOLLOWS REGARDS

SARMA

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INCOMING CABLE

DATE AND TIME 12:00	TO NEW YORK	FROM LONDON	TOC NO. 100	NO. OF PAGES 1	RECEIVED BY MR. KILMER	FOUR LINE
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URGENT
 MESSAGE TO DIRECTOR GENERAL
 RE: [Illegible]
 [Illegible]
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FEB 6 8 27 AM 1968

GENERAL FEES
 - [Illegible]

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: February 2, 1968

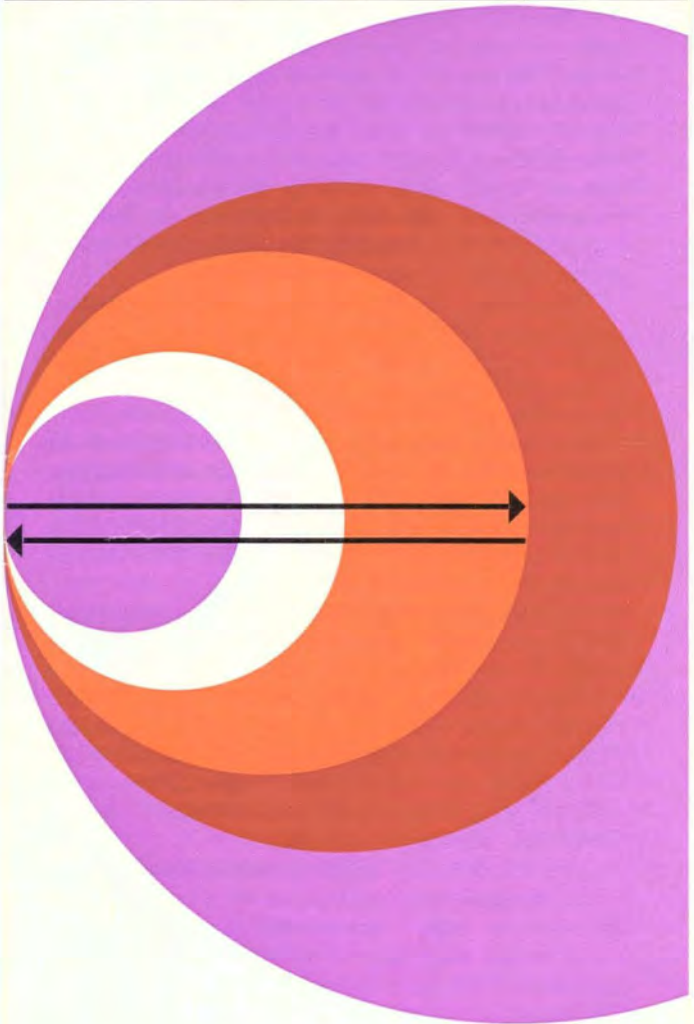
FROM: Andrew M. Kamarck *amk*SUBJECT: Mr. Balassa's Paper and New Delhi

At the Wednesday meeting on January 31 when we were talking about New Delhi, I mentioned that we might have another item for New Delhi, an updating by Balassa of the changes resulting from the Kennedy Round on the tariff structure of the industrial countries. As I indicated, I was still uncertain exactly what the position on it was. Since then this has become clarified.

Mr. Balassa prepared a paper for UNCTAD before he came to the Bank on the subject of the effective tariff rates in the developed countries which affect developing countries. He revised this paper somewhat after he joined the Bank and most recently in response to a request from Mr. Prebisch he prepared an addendum to his original paper on the impact of the Kennedy Round. The UNCTAD Secretariat has informed me that the original paper Balassa prepared for UNCTAD has been run off and distributed in New Delhi. On the addendum, a draft of which has just been completed, Mr. Balassa has been in touch with us and with them on some minor revisions. Harry Bell of the UNCTAD Secretariat has carried this addendum with the latest revisions with him to New Delhi. I have agreed that this should be run off and distributed by UNCTAD in New Delhi with a note that this was prepared by Mr. Balassa of the World Bank as a part of the World Bank's cooperation with UNCTAD.

ISSUES BEFORE

UNCTAD-II



**Second United Nations Conference
on Trade and Development
New Delhi, 1 February - 25 March 1968**

1964

is a date to be remembered in the long history of trade relations between nations. It was in the spring of that year that the first United Nations Conference on Trade and Development (UNCTAD) met in Geneva.

The 122 participating nations had come together to examine how far the international trading system inherited from pre-war days was capable of confronting the urgent problems of the post-war world. UNCTAD was thus primarily concerned with trade as a means of promoting economic development. It set out to examine the adequacy of the present system regulating world trade in the performance of this function. Its deliberations ended with a number of recommendations.

Simplified to the extreme, the recommendations of the 1964 Geneva Conference were in four main categories. Those relating to trade in primary commodities made up the first one. Recommendations aiming at easier access for the manufactures of low-income countries to the rich markets of the world were the main theme of the second category. The third was mainly concerned with the volume and terms of financial assistance to developing countries. The last dealt with the problem of invisibles, including shipping.

In December 1964, UNCTAD was established as a permanent organization. It became an organ of the UN General Assembly, with its headquarters in the Palais des Nations in Geneva. While the 55-member Board is its permanent directing organ, the Conference itself (which now numbers 132 members) is to reconvene every three years. The second UNCTAD meets between 1 February and 25 March 1968—this time in New Delhi.

To see how far those recommendations have been translated into practice, or what consequences the lack of their implementation is having on world trade, may help in the comprehension and appreciation of the issues which are likely to be in the kernel of the second UNCTAD deliberations.

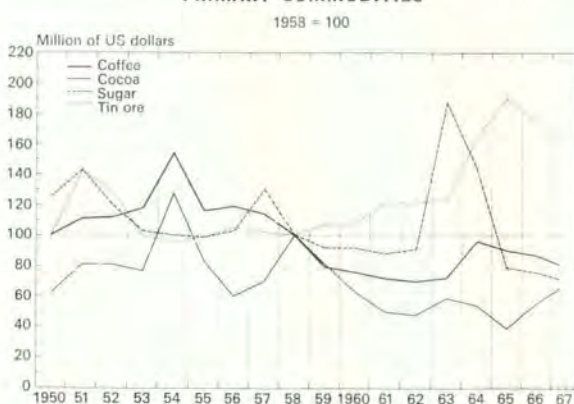
In actual fact, most of the problems which preoccupied the 1964 Conference have since grown even more acute.

The industrialized countries of the world's North are becoming richer much faster than the developing countries of the South are growing less poor. The gap between the two continues to widen. And the obstacles which impede the narrowing of that gap are becoming more rather than less important.

Even the countries most richly endowed with natural wealth and best able to mobilize their internal resources need foreign currency to pay for the indispensable, imported tools for their modernization. At present, of every \$100 worth of foreign currency at the disposal of the developing countries, only a fifth is provided by grants, loans or private investments. About \$80 worth, or four-fifths, is still earned through foreign trade. But the volume of foreign aid scarcely increases any longer. Nor is there any significant change in the international trading system which would enable the developing countries to earn a larger proportion of the foreign currency they so badly need.

As is well known, the developing countries' exports are made up mainly of primary commodities. Only a very few among them export manufactured articles on any significant scale. For most of them two or three commodities earn almost all their export income and the rapid and often violent fluctuations in the prices of these commodities is the measure of the vulnerability of their economies. Though considerable progress has been made in working out details of appropriate mechanisms to

EXPORT PRICE INDEX NUMBERS OF SELECTED PRIMARY COMMODITIES

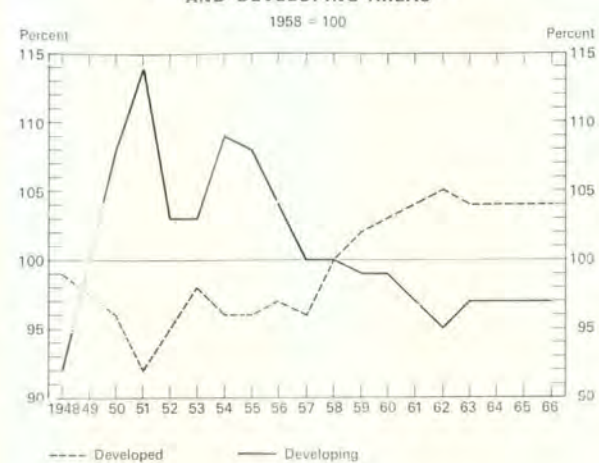


Source: Statistical office of the United Nations.

bring about price stabilization agreements—for example, for cocoa and sugar—no formal international agreements have been concluded since 1964 on any commodity not previously so covered. The uncertainty of the developing countries' export income due to price fluctuations has thus not appreciably lessened. Wild and sudden oscillations continue as before. The price of cocoa, for example, over 34 cents a pound in 1959, declined to 22.5 cents in 1964 and to 16.1 cents the following year. As for sugar, from 8.29 cents a pound in 1963, it had fallen to a fifth of that price by 1966.

In the meantime, while prices of industrial goods have tended to increase, there has been a symmetrical tendency for prices of primary commodities to decline. From 1960 onwards, there has been a steady deterioration in the developing countries' terms of trade. By and large, and year after year, the miners, the plantation workers and the agriculturists of the poor countries of the southern

TERMS OF TRADE OF DEVELOPED AND DEVELOPING AREAS



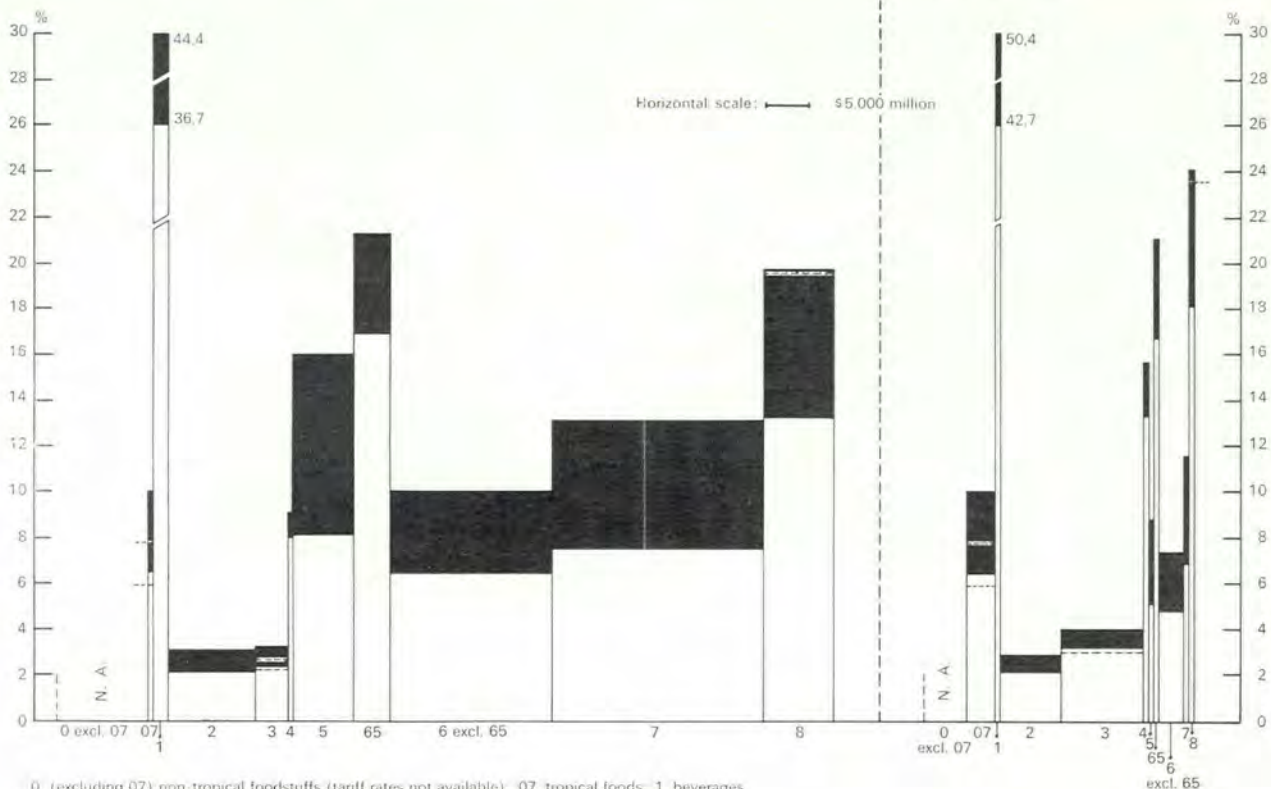
hemisphere have been working longer and longer hours to obtain the same machinery needed for their countries' modernization.

If there have been isolated instances of the removal or the suspension of customs duties on some products, certain other measures have rather increased the impediments to commodity trade. As

AVERAGE TARIFF RATES FOR EEC, US, UK AND JAPAN COMBINED

Tariff profiles facing developed countries

Tariff profiles facing developing countries



0 (excluding 07) non-tropical foodstuffs (tariff rates not available); 07 tropical foods; 1 beverages and tobacco; 2 raw materials; 3 fuels; 4 fats and oils; 5 chemicals; 65 textiles; 6 (excluding 65) other semi-manufactures, etc.; 7 machinery, transport equipment; 8 miscellaneous manufactures.

a whole, little progress has been made towards a more rational international distribution of primary production in harmony with the interests of the developing countries. In fact, growing recourse to synthetics and substitutes, parallel with the continued expansion of subsidized and therefore uneconomic production of primary commodities in industrialized countries, has tended further to obstruct the expansion of the developing countries' exports in primary commodities.

Generally speaking, the Kennedy Round negotiations, notwithstanding some benefits to the trade of developing countries, did not sufficiently improve conditions of access for most of them. Indeed,

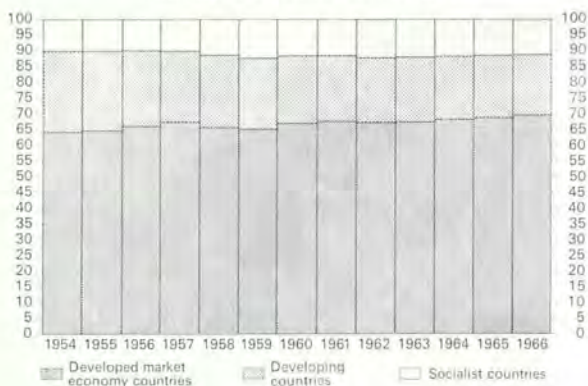
tariffs on semi-manufactured and manufactured products of interest to low-income countries were reduced on the average by a significantly smaller percentage than those on other products. Special measures to restrict imports of cotton textiles and clothing—by far the dominant item among the manufactured exports of developing countries—were maintained although quotas were expanded and tariffs were reduced by certain developed countries. As for non-tariff barriers, of special importance to low-income countries, they were not significantly reduced.

The above chart indicates, by means of the black areas in the left-hand section, the relative

magnitude of the tariff cuts made in the Kennedy Round by the four major industrial markets on developed country products; this is in comparison with the magnitude of the cuts made on the export products of developing countries (shown in the black areas in the right-hand section). On the left are shown weighted average tariff rates, before and after the Kennedy Round, on all products, by major commodity categories, with the relative trade importance of each category in terms of OECD imports from OECD countries shown on the horizontal scale. On the right are similar averages of tariff rates on products of interest to developing countries, with the same horizontal scale showing the relative importance of OECD imports from developing countries. This comparison illustrates the relative modesty of the advantages the developing countries would derive from the Kennedy Round tariff cuts compared to the much more substantial benefits these would offer to the developed countries' trade.

SHARE IN WORLD EXPORTS

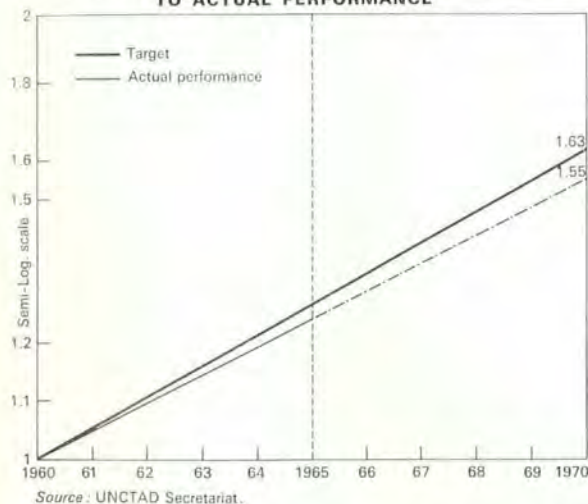
(Percentages based on current US dollars f.o.b.)



Under the impact of all these factors, the developing countries have been unable to keep pace with the overall expansion of world trade. Indeed, from a quarter of the world trade total in 1954, their share had shrunk to less than a fifth by 1966.

Against such a background, it is scarcely surprising that even the modest targets of the United Nations Development Decade remain unfulfilled. They called for a yearly increase of at least 5 per

DEVELOPMENT DECADE TARGET AS COMPARED TO ACTUAL PERFORMANCE



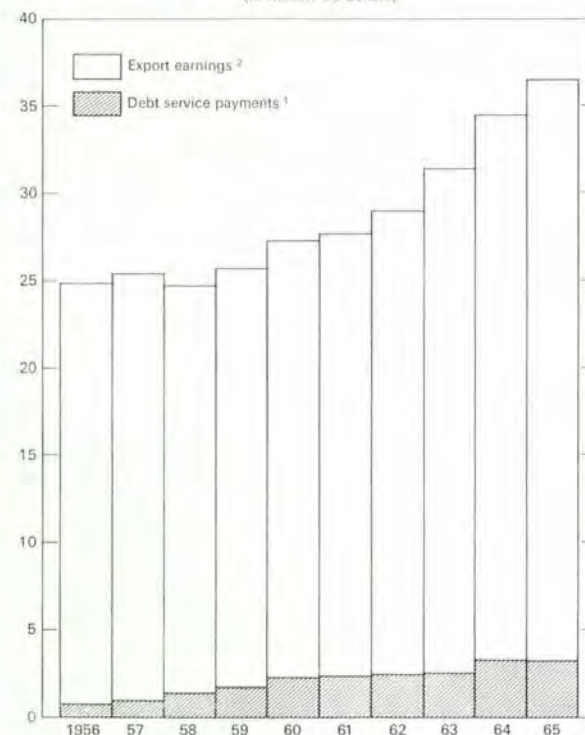
cent in the developing countries' gross national product. In view of the fast population growth, in most cases this would have meant no more than a 2 or 3 per cent growth per head. Yet, notwithstanding the fact that the under-developed countries have expanded their exports, the Development Decade's targets are not being met. Growth rates are steadily falling behind expectations.

Deteriorating terms of trade, the uncertainty of export income, and the shrinking volume of external aid apart, some additional factors have to be considered to explain this failure.

The low-income countries are shouldering fast-growing burdens in the form of their invisible payments—for example, for the shipping or the insurance services they need. Above all, the developing countries' rapidly increasing indebtedness represents a new problem of threatening proportions. The outstanding public debt of 96 recipient countries rose from \$10 billion to \$38 billion during the decade ended in 1965. Unreported debt and commercial arrears would probably raise this figure to over \$40 billion. Simultaneously, the servicing burden has grown proportionately. Estimated service payments on external public debt for the same 96 countries rose from less than one billion to \$3.5 billion in 1965, nearly half of it attributable to export credits. By now, more and more developing countries have

DEBT SERVICE PAYMENTS OF DEVELOPING COUNTRIES COMPARED WITH EXPORT EARNINGS

(In Million US dollars)



Notes: ¹ Payments on external medium- and long-term public debt of 96 developing countries (IBRD Report No. EC-149, October 1966).
² UN Monthly Bulletin of Statistics, August 1967 and UN Yearbook of International Trade, 1963.

to pay back a third or more of every \$100 earned or received, in order to pay for invisible services, to repay debts and to service what they have borrowed in the past. In fact, if one assumes that the volume of lending and its terms remain unchanged, it has been estimated that net lending—that is, incoming minus outgoing payments—would fall to nearly zero by 1975.

It will be remembered that the 1964 Geneva Conference recommended that the industrialized countries should devote one per cent of their gross national product to development aid. There are only a very few exceptional cases where this target has been reached or surpassed. Taking the developed countries as a whole, their aid in fact has declined from 0.87 per cent in 1961 to 0.72 per cent in 1965—

and the downward trend continues. In 1966, notwithstanding rapid increases in their own national product, the majority of donor countries were further from meeting the one per cent target than they were in 1961.

This already bleak picture is further overshadowed by the dark cloud of the fast-deteriorating world food situation. Countries, traditionally food exporters, have now to devote an increasing proportion of their export income or the aid they receive to buying food for survival.

Clearly, we have reached a point where the problems of the economic progress of the majority of mankind call for urgent, new measures—for a modified approach.

No one denies any longer the incalculable and dangerous consequences of a world divided into a dynamic rich minority increasingly separated from a majority made up of poor and stagnant masses deprived of hope. Nor is there any doubt that prosperity and greater purchasing power in the South could bring to the North economic benefits comparable to those produced by the economic emancipation of the under-privileged classes early in this century in the now developed countries. Equally, it is generally admitted that, even if external aid is indispensable, the primary effort has to be supplied by the developing countries themselves. Indeed, there is a growing awareness of the need for a co-ordinated, global strategy in the battle against under-development. The time has come to bring aid, trade and monetary policies into a realistic relationship with each other. Partial remedies and the unconnected and often improvised measures hitherto applied will have to yield their place to synchronized and convergent action capable of harmonizing the aspirations and the interests of the northern and southern hemispheres of our world. What is possible and what is desirable will have to be reconciled in the process. Thus the realistic, short-term measures now possible should fit into the wider context of what is desirable in the perspective of the years to come.

Such are the facts, the needs and the ideas which provide the background to UNCTAD-II.

Winding up the debates of UNCTAD's fifth Board meeting in the autumn of 1967, its President defined three clear objectives for the New Delhi Conference. The first he described as the fresh evaluation of the world economic situation and its effects on the implementation of the recommendations of the first Conference in 1964. In the second category were negotiations on certain questions ripe for action. Finally, he foresaw a debate on longer-term problems and on how to approach them in a constructive fashion.

Since the Geneva Conference of 1964, a great deal of study and discussion has been devoted to the definition of concrete measures destined to translate into action the recommendations of the first UNCTAD. This process of selection, parallel with the endeavour to find suitable mechanisms and institutions for the solution of the most urgent problems, has been going on within UNCTAD as well as in a variety of other international and non-governmental organizations. It has culminated in preparatory meetings to co-ordinate attitudes of the participants of UNCTAD-II. The developing countries have met in Algiers. Similar meetings were scheduled both by members of the OECD and by the socialist countries.

The numerous items of the provisional agenda of UNCTAD-II—as approved by the fifth Trade and Development Board—are divided into eight main, self-explanatory categories:

- Trends and problems in world trade and development
- Commodity problems and policies
- Expansion and diversification of exports of manufactures and semi-manufactures of developing countries
- Growth, development finance and aid (synchronization of international and national policies)
- Problems of developing countries in regard to invisibles including shipping

Trade expansion and economic integration among developing countries, measures to be taken by developing and developed countries—including regional, sub-regional and inter-regional arrangements

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

General review of the work of UNCTAD.

While it is expected that on most of the questions included under these headings progress will be made towards a better documentation and understanding of, or eventually the solution of problems raised, the consensus that has emerged from preliminary discussions seems to indicate that a few selected issues in each category will probably be in the centre of negotiations. The following may be singled out as most likely to fall into this category:

Commodity problems

The first objective is to broaden the volume of primary commodities exported. To lower existing barriers and to facilitate access to high-income markets may go hand in hand with a guaranteed share of the increment of consumption. Exports to socialist countries, in fast expansion for some years, may be stepped up and tied to quantitative targets. The agenda foresees also discussion on international commodity arrangements and other techniques of commodity market stabilization. The operation and financing of buffer stocks, diversification programmes and guidelines for pricing policy are among the key questions, as well as problems arising from the development of synthetics. The last Board meeting agreed that, in the primary commodities sector, international action can be most successful if tackled product-by-product. Three commodities have been considered as calling for particularly urgent action—cocoa, sugar and rubber. In the case of cocoa, after long months of intensive efforts, by the end of 1967 important enough

progress has been made to justify the re-convening of a cocoa conference in order to finalize arrangements. Similarly, the reconvening of a sugar conference is foreseen for the spring of 1968.

Financing of buffer stocks

In several cases of projected commodity price stabilization agreements, buffer stocks would constitute an indispensable part of the mechanisms envisaged. At the moment there is no clearly defined source of financial means for this purpose. Yet even where, in the long run, buffer-stock operations might become self-financing, funds would be required at least for the initial period while their proper functioning was assured.

Supplementary finance scheme

At UNCTAD's request, the World Bank staff has prepared this scheme. It would aim at enabling developing countries to carry out their development plans notwithstanding unexpected short-falls in their export income. Having agreed on the broad formulation of a development programme, and taking into account the availability of other resources, the administering agency would undertake to provide the country in question with financial assistance sufficient to maintain the foreign currency component of its foreseen investments. It is estimated that a yearly \$300-\$400 million would be required to operate the scheme. Terms and conditions on the loans thus provided would take into account the existing debt situation of the country in question, as well as its subsequent export performance during the plan period.

Volume and terms of aid

It is hoped that an advance may be made towards the implementation of the 1964 target that each industrialized country should devote

one per cent of its gross national product to development finance. To further this goal it would be desirable that an increasing proportion of the one per cent should be forthcoming in the form of bilateral or multilateral governmental aid. A "softening" of the terms of aid and agreement on the long-term consolidation of repayments wherever heavy indebtedness obstructs development would further improve the situation. Equally, specific steps are envisaged to lead to the "untying" of a growing proportion of aid given so as to allow developing countries to buy at the most competitive source.

Preferences

Since the expansion of the developing countries' traditional exports is unlikely to be spectacular, the diversification of their foreign sales, so as to include also manufactured articles, is more than urgent. The granting by the high-income countries of temporary, non-reciprocal and non-discriminatory preferences in favour of the manufactured and semi-manufactured exports of the developing countries would be an important step in this direction. The modalities of such an offer are now under discussion in a number of industrialized countries. Increased efforts in the trade promotion field would contribute a logical complementary measure. The additional foreign currency so earned by the developing countries would enable them to step up the purchases of equipment goods they need for their modernization. For the time being, only a minority of the developing countries has advanced far enough towards industrialization to derive immediate substantial benefits from preferences. Yet it would open up new possibilities for most others. At the moment, a good many developing countries are already covered by preferential systems. Their generalization would involve adequate safeguards for the industries of the developed countries as well as suitable measures in favour of those now enjoying preferential treatment. The universal application of such non-reciprocal preferences would extend their competitive advantages to all and would bring nearer

the day when the developing countries, their young industries strengthened with the aid of preferences, could themselves dismantle their protectionist measures and expose themselves to global free competition.

Trade expansion and integration among developing countries

While more and more high-income countries form larger and larger trading units, it is imperative that the developing countries too should advance towards the creation of viable economic entities, a broader volume of trade among themselves, and large enough internal markets to permit production on an economic scale. The creation of such regional and sub-regional groups among developing countries poses even more complicated problems than those the industrial countries had to confront in their own integration efforts. While the developing countries may specify their concrete plans of regional or sub-regional integration, they may require financial assistance to help create their multilateral payment systems or the other accessories of successful integration.

A Guide to the documentation before the Conference is contained in document TD/INF. 3. This Guide and the documents listed therein may be consulted at the United Nations Information Centres or at local depository libraries of UN publications. Sales documents may be obtained through distributors of United Nations publications.

For all further information, write to:

**UNCTAD, Information Service
of the United Nations**

Palais des Nations, Geneva, Switzerland

Mr. Friedman

UNITED NATIONS

Press Services
Office of Public Information
United Nations, N.Y.

(FOR USE OF INFORMATION MEDIA -- NOT AN OFFICIAL RECORD)

Press Release TAD/131
1 February 1968

PRIME MINISTER OF INDIA INAUGURATES SECOND UNCTAD SESSION;
CALLS FOR GLOBAL STRATEGY OF DEVELOPMENT

(The following was received from an United Nations Information Officer, with the Second Session of UNCTAD, New Delhi.)

Mrs. Indira Gandhi, Prime Minister of India, today in New Delhi inaugurated the second session of the United Nations Conference on Trade and Development (UNCTAD).

Addressing 2,500 delegates, members of the diplomatic corps, observers and representatives of the world information media, she drew attention to the need for a global strategy of development. It was imperative, she declared, that the international community find means to guide economic forces towards progress and peace.

In addition, guests at the inaugural ceremony heard a message from Secretary-General, U Thant, brief remarks by the UNCTAD Secretary-General, Raul Prebisch, and a statement by Abdel Moneim El-Kassouni (United Arab Republic), who was president of the first session of UNCTAD, held in 1964.

Emphasizing the indissoluble link between peace and prosperity, Mrs. Gandhi said that there could be no peace without erasing the harshness of the growing contrast between rich and poor.

"Year by year", she observed, "the needs of the developing nations are becoming more acute, more urgent." And while the presence at the UNCTAD session of so many distinguished statesmen from different parts of the world re-awakened hope, there was also the haunting fear that a historic opportunity "to set the world community firmly on the road to peace and prosperity might again be missed."

(more)

Elaborating on the causes of this anxiety and the widening gap between the developed and the developing countries, Mrs. Gandhi said: "Today the rich nations find it more rewarding to invest their savings in their own security, in the advance of their technology, even in establishing contacts with distant planets. They find it more interesting to trade amongst themselves than with the developing nations. Their markets and profit patterns are protected by tariff and non-tariff barriers. The efforts of the less developed countries to process their natural products and increase their share of international trade in manufactured and processed goods are thus frustrated. The continuous onslaught of synthetics and substitutes further deprives poor nations of the resources they could derive from the use of their products. Thus, the gap keeps growing."

She said that the world economy "has no built-in corrective" and, therefore, economic processes "must be guided by a moral purpose and directed towards desirable ends by the political will of the international community."

Responsibility for development must primarily be shouldered by the developing nations themselves, continued the Prime Minister. Political domination over the process of development by nations wielding economic power was inconsistent with the United Nations Charter. "What we need is a global strategy of development," she declared, "an integrated programme of international co-operation which outlines convergent measures to be undertaken by every member state."

As for aid by the advanced countries, she said, the question was "not whether they can afford to help the developing nations, but whether they can afford not to do so".

In opening her address, Mrs. Gandhi expressed deep regret that U Thant had not been able to be present to launch the Conference, which she described as "a joint endeavour to build a better world".

The United Nations Secretary-General more than anyone else, said Mrs. Gandhi, "has helped us in our moments of despondency and urged us to remain true to the ideals embodied in the Charter of the United Nations over which he presides with such distinction".

(more)

U Thant's Message

In a message to the Conference read for him by Philippe De Seynes, Under-Secretary-General for Economic and Social Affairs, U Thant deeply regretted his inability to leave New York at the present time, owing to the international situation, but added his earnest hope "that it will be possible for me to travel to New Delhi at the earliest possible time".

The UNCTAD Session, his message added, was opening at a moment when the need to link peace and prosperity appeared particularly essential. He hoped that the many problems facing the Conference would be approached "not from any conflict of interests, but from the standpoint of a common desire to achieve the objectives ... laid down in the United Nations Charter."

Concrete and positive solutions of the problems of economic growth, trade, and development financing would constitute the basis of "a realistic endeavour to achieve the fulfilment of universal and lasting peace," the message stated.

Mrs. Gandhi and Mr. De Seynes were introduced at the opening of the inaugural ceremony by the Secretary-General of UNCTAD, Raul Prebisch.

Thanks Expressed to Prime Minister

Abdel Monem El-Kassouni (United Arab Republic) President of the First Session of UNCTAD in Geneva in 1964, thanked the Prime Minister on behalf of all delegations. He said that Mrs. Gandhi's statement had profoundly analyzed the problems facing the developing countries and given a picture of the difficulties they had to cope with, and he expressed the hope that the Conference would achieve the objectives for which it was convened. Mr. Prebisch emphasized the "magnificent hospitality" of the Indian Government and people and expressed his gratitude also on behalf of the United Nations Secretary-General, U Thant, and the Secretariat.

The first plenary meeting of the Conference will be held at 4:00 p.m. today in the Vigyan Bhawan which on Tuesday, 30 January -- following a brief symbolic "handing over" ceremony at which the United Nations flag was raised -- became United Nations territory for the duration of the UNCTAD Conference.

KARASZ
INTBAFRAD
NEW DELHI

February 2, 1968

Full Rate

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FRIEDMAN

IRVING S. FRIEDMAN

THE ECONOMIC ADVISER TO THE PRESIDENT

Copies to: Mr. Hoffman
Mr. Kamarck
Mr. Sacchetti
Mr. Kalmanoff

Mr. Graves' Secretary phoned to dictate this cable which was sent from Mr. Karasz.

To: Mr. Hoffman

PREBISCH TELLS ME FRIEDMAN TRIED TO TELEPHONE HIM TODAY.
LINE BAD. FRIEDMAN PROMISED CABLE BUT HAS NOT. AS DELEGATION UNINFORMED
COULD NOT GIVE ANY EXPLANATION TO PREBISCH. PLEASE CABLE IF NECESSARY.

KARASZ

*Cable signed by Woods and dispatched 6:30 p.m. yesterday,
L.T. rate as charged by Mr. Woods.*

*~~Friedman was calling at request to inform Prelim
of status of Stubbins' report of grant award~~*

Talked to Graves Jan 3, 1968

LSF

C O P Y

RAUL PREBISCH
OBEROI HOTEL
NEW DELHI

January 30, 1968

~~Full Rate~~ - L T

INDIA

FRIEDMANS ATTEMPTED PHONE CALL WAS TO INFORM YOU OF LATEST
STATUS OF PROPOSAL I MADE IN STOCKHOLM SPEECH FOR REVIEW OF
DEVELOPMENT PROBLEMS BY OUTSIDE EXPERTS STOP BELIEVE NOW ABLE
TO PROCEED WITH IMPLEMENTATION OF PROPOSAL BECAUSE OF PROGRESS
MADE IN IDA REPLENISHMENT STOP WISH TO EXPRESS MY APPRECIATION
FOR YOUR PERSONAL SUPPORT OF PROPOSAL STOP REGARDS

WOODS

George D. Woods
President

ISF/mlr

Form No. 75
(2-60)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

INTERNATIONAL DEVELOPMENT
ASSOCIATION

ROUTING SLIP

Date

January 31, 1968

NAME

ROOM NO.

Mr. Friedman

1223

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

Comment

Per Our Conversation

Full Report

Recommendation

Information

Signature

Initial

Send On

REMARKS

This isn't very good but perhaps representative of some ideas that are floating around.

From

Gerald Alter *GA*



In Alter



(The markings are by David Pollock)

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

A study on independent international evaluation of national development efforts

by

P. N. Rosenstein-Rodan*

* This study by P. N. Rosenstein-Rodan, Professor of Economics, Massachusetts Institute of Technology, was prepared at the request of the UNCTAD Secretariat. The views expressed in the study do not necessarily reflect those of the Secretariat.

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I. INTRODUCTION

1. International aid to developing countries, like lend-lease in its time, represents a new institution in international economic relations. Its purpose is to accelerate economic development up to a point where a satisfactory rate of growth can be achieved on a self-sustaining basis. Its aim is not equality of income but equality of opportunity; it is not to equalize income in different countries but to provide every country with an opportunity to achieve steady growth. The primary criterion for allocating aid is thus to maximize additional national effort, not to maximize income created per dollar of aid.
2. There is a natural credibility gap whether such a primary criterion will in fact be applied. Justified or unjustified suspicion that aid-giving might be used to obtain other concessions, that it will be subject to political or economic strings, impedes discussions of what measures are needed and are possible to increase or to optimize national effort. The incentive effect of aid as a catalyst of (and not a substitute for) often painful and difficult national development measures is weakened. The very discussion by a credit-giving country of what the receiving country should do invariably raises objections that the latter's national sovereignty is being infringed. Under such circumstances, the discussion is either incomplete and not explicitly articulated or it is bound to give rise to bad blood and mutual recrimination. In practice both effects occur in a varying mix of disadvantages. It is natural, therefore, that from time to time there have been in the post-war years demands for the establishment of procedures for an independent evaluation of national development efforts, the results of which would be acceptable to both the donors and the recipients of aid. An impartial international evaluation is an attempt to reconcile the legitimate interests of both parties, avoiding thereby the friction that could result from potential differences of opinion between them.
3. The creation of the International Bank for Reconstruction and Development (IBRD) in 1946 marked the first major agreement to allocate aid by an international agency according to some internationally agreed upon principles. It was a step in the right direction, but it cannot be said truly to represent an independent international evaluation of national development efforts. That idea gradually developed with the practice and the doctrine of the International Bank, beginning with joint comprehensive

survey mission reports arranged by the Bank and the respective Government starting in 1950.^{1/} The reports of the survey missions, however, were rather a basis for the selection of projects to be financed by the Bank than a firm decision or practice to finance a development programme as a whole. In one case only, before 1958, did the Bank finance a development programme as a whole. That was in 1951 when a series of loans was granted for the development of the south of Italy. The amount of loans was determined by the nature of the programme as a whole, although single loans were attached to specific projects. During the first decade of its operations, the Bank in fact confined itself to project loans. Its official statement that "the Bank would prefer to go further, wherever that is feasible, and base its financing on a national development programme, provided that it is properly worked out in terms of the projects by which the objectives of the programme are to be attained."^{2/} remained platonic. The Bank also realized the main shortcomings of single project loans: "The Bank recognizes, of course that by financing one particular investment project, it may be releasing resources already available to the borrower for some other investment activity. This is the principal reason why the Bank seeks to consult with its member countries not only concerning the merits of projects for which a loan is requested but concerning the country's projected investment expenditures as a whole."^{3/} Apart from a project report, each loan therefore also led to an economic report on the country but its main emphasis was: (a) to assess the country's capacity to repay loans, then (b) the general order of priority of projects under consideration and last, (c) the appropriateness of the Government's economic and financial policies to further the development process. The survey mission reports had an educational effect not only in the countries concerned but also in the Bank to shift the emphasis towards an assessment of the main outlines of a development programme. While the progress was gradual, the first report incorporating that spirit was perhaps the IBRD report on India in 1958. It is in this spirit that most IBRD country reports are written in the 1960's.

1/ IBRD Reports on Colombia (L. Currie), 1950, Guatemala, 1951, and Uruguay, 1951, published by IBRD, Washington D.C. Beginning in 1952 the following reports were published by Johns Hopkins University Press, Baltimore, Md.: Iraq, 1952; Jamaica, 1952; British Guiana, 1953; Mexico, 1953; Nicaragua, 1953; Ceylon, 1955; Malaya, 1955; Nigeria, 1955; Libya, 1960; Venezuela, 1961; Uganda, 1962.

2/ IBRD, Fifth Annual Report 1949-1950, Washington D.C., p.8

3/ Ibid, p.9

4. Progress towards an evaluation of a nation's development programme as a whole, rather than of single parts of it in the form of projects, was gradual and slow and was only accelerated under the impact of the "Three Wise Men" mission to India -- which was not an IBRD mission -- and of the consortium loans initiated by the India Consortium under the guidance of IBRD in 1958. Nevertheless the principle of a multi-lateral decision and of concerted action was already largely (though not wholly) secured by the very fact that a multinational agency like the International Bank, and later on the regional development banks (Inter-American Development Bank, African and Asian Development Bank) and not one national Government, acted both in evaluating and in lending. What Milton Eisenhower cites as advantages of the Inter-American Development Bank is thus true of all such multilateral organizations: "First, decisions on loan applications would be made co-operatively; thus there would be no justification for identifying the United States with project development that while improving the economics continues to strengthen the prevailing order. Second, if conditions were attached to loans, in the hope of spreading more widely the benefits of economic growth, the intervention involved or implied would have been collectively determined. In other words, an agency of the Americas might help to solve the dilemma: desirable social changes might be fostered through credit, while avoiding malodorous charges that had arisen as the United States sought sincerely but unilaterally to promote economic development in Latin America."^{1/} The International Bank through its survey missions, its sponsorship of more consortia and consulting groups and also through its gradually increased emphasis on evaluating a development programme had a headstart and has made in this one important respect a greater contribution, so far, than the regional development banks. But, although a multilateral agency, its voting power is strongly weighted in favour of the group of creditor nations. The regional development banks are not only multilateral agencies but have a higher voting power of developing countries, which enhances the validity of their co-operative collective decisions.

n B.

1/ Milton Eisenhower, Historic Roots: "The Alliance for Progress", The Johns Hopkins Press, Baltimore, Md., 1962, pp.6-7, quoted by Raúl Sáenz, "The Nine Wise Men and the Alliance for Progress" in forthcoming special issue of International Organization - "Global Partnership: Agencies and Development", Eds. R.N. Gardner and N.F. Millikan.

II. DELEGATION OF DECISION TO ALLOCATE AID: FROM THE MARSHALL PLAN TO THE ALLIANCE FOR PROGRESS

5. The Marshall Plan - a co-operative effort for the reconstruction of Western Europe - introduced clearly the principle of a de facto (not de jure) delegation of decisions to allocate aid. The Ministerial Committee of its organization, the Organisation for European Economic Co-operation (OEEC) "decided", on the basis of studies of a committee of technicians appointed by Governments and of its Secretariat, the allocation of annual aid among the participating European countries. Legally the OEEC allocation decisions were mere recommendations. Nobody doubted, however, that the recommendations - short of extraordinary reasons and circumstances - would be accepted by the United States Government which made a declaration of intent to allocate aid according to such recommendations, and in fact did so; the system worked smoothly during the second half (the third and fourth year) of the Marshall Plan.

6. The Marshall Plan's criterion for aid allocation was somewhat simpler than that of general development programme - it was, after all, a reconstruction, not a "construction" plan - namely, to cover the dollar balance-of-payments deficit, assuming that the national effort to reduce it was sufficient. The judgement as to whether this effort was sufficient was in fact delegated to OEEC. Since the primary object was to reduce the balance-of-payments deficit, less emphasis was paid to the allocation of aid funds to single projects. Let us remember, moreover, that, even though the administration of the so-called counterpart funds presented some difficulties similar to those of development, these difficulties were largely overcome owing to the fact that the head, or a high official, of a Marshall Plan mission had direct contact and co-operation with the Minister of Economy or Finance or a corresponding high national official about the total economic policy of the country. These contacts, crystallized in an over-all view, had priority, while details of technical assistance about single projects were rather in the background.

7. While the Marshall Plan clearly introduced the principle of multilateral co-operation and of the delegation de facto of decisions to allocate aid, it did not achieve all that might be achieved in the evaluation of national development efforts: it was multilateral but it was not independent. The decisions to allocate aid were taken by a ministerial, i.e. a political committee, not by a committee of independent experts. It represented important progress towards, but not the full realization of,

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An independent "committee of wise men" should evaluate the development programme, its consistency, and notably the adequacy of national effort on the basis of which it would assess the amount of external resources needed and justified. International agencies and Governments would agree to tender aid according to that recommendation. Internationally agreed criteria, tested and applied by an international committee independent of both creditors and debtors, would remove the frictions which result from political suspicions. Such a committee should therefore be able to insist more emphatically on some efficiency conditions and could thereby achieve better results. The evaluation of a development programme on functional lines would to a very large extent "depoliticize", streamline and "functionalize" the negotiations on economic development.

10. In the internal paper of the group of experts convened by ECLA in 1954, the hope was expressed that such a committee of experts would receive an international mandate to assess the national and international effort required for all international development aid. The finally published report ^{1/} modified the approach in two respects: it said that (i) such a committee should be convened only in "certain cases"; and that (ii) its findings would be recommendations and not mandatory. The basic principle of both a multilateral and an independent evaluation was, however, maintained:

"That in preparing internal measures aimed at facilitating the full utilization of international co-operation it might, in certain cases, benefit the Latin American countries to receive the prior opinion of an independent group of experts;

"That owing to the confidence this group might inspire in the interested governments and international credit institutions, the advice of such experts could also contribute to harmonizing different points of view and facilitating negotiations;

"That in order to discharge their duties to the best of their ability the experts should act in a personal capacity and as entirely independent of the institutions appointing them".

^{1/} ECLA, 1954, op. cit., part II, p. 136. Part II of this publication is the report containing the conclusions and recommendations of the group of experts referred in page 7 and which was composed of Eduardo Frei (Chile), Evaristo Araiza (Mexico), Cleantho de Paiva Leite (Brazil), Carlos Ileras Restrepo (Colombia), Rodrigo Falcio (Costa Rica) and Francisco Garcia Olano (Argentina). Part I contains the preliminary report prepared by the secretariat of ECLA.

11. Even this modified recommendation did not prove to be acceptable at Quitandinha. The requests for specific long-term pledges of aid for national development programmes and for a delegation of decisions to allocate aid de facto at least, though not de jure, were said to be impossible. The further evolution of Latin American thinking on international co-operation in development - through the Operation Pan America 1958, followed by the lengthy (20 months) bureaucratic process of the Committee of Twenty-One, then an additional aide-memoire from President Kubitschek of Brazil to the President of the United States up to the Act of Bogota in 1961, which established the Inter-American Development Bank (IDB) and a Special Fund for Development, earmarking resources for social development to be handled financially through IDB - is excellently described in two publications.^{1/} While the need for a multilateral partnership in development was accepted, no effort was made to deal explicitly with the problem of a multilateral independent evaluation of national development efforts. The latter concept - rejected as impossible in 1954 - became possible and was accepted by President Kennedy at Punta del Este in August 1961, when the Alliance for Progress was established.

12. Outside Latin America some progress in multilateralization was achieved in the late 1950's through the technique of consortia and later on through consultative groups. In 1949-50, IBRD undertook a successful mediation leading to joint action by India and Pakistan in the Indus River Basin. The "Three Wise Men" mission to India and South East Asia in 1953 was an isolated attempt to present to the world an independent multinational assessment of development needs, in the hope that the moral weight of the findings would lead to action by Governments and international agencies. In this sense it was not unsuccessful since it contributed to decisions to increase lending to India and Pakistan. The mission had its own secretariat; IBRD only provided the logistics but was not responsible for its findings.

13. In August 1958, IBRD established a consortium for aid to India. The initial meetings to cover the requirements of the last two and a half years of the second plan period only indicated broad magnitudes of aid which participating members intended to

^{1/} Hernando Agudelo Villa, La revolución del desarrollo, Mexico, Editorial Roble, 1966, and Raúl Saenz, op. cit.

make available. Authorizations of aid subscribed by eleven participants between 1961-62 and 1965-66 amounted to \$4,698.7 million. The second consortium organized by IBRD was for Pakistan in 1960. The consortium aid pledges in 1961/62 - 1965/66 amounted to \$2.050 million. Other consortia were established by OECD for Greece in 1960 and Turkey in 1965. Consultative groups were established by IBRD for Colombia (1963), the Republic of Korea (1966), Malaysia (1966), Sudan (1964), Thailand (1965), Tunisia (1962), as well as for Morocco, Nigeria and Peru. IDB established a consortium for Ecuador in 1965.

14. The advantage of consortia and consultative groups is not only that of mobilizing resources from different countries or agencies, but also that of assessing the country's development effort and strategy as a whole and not limiting its attention to single project analysis. The agencies organizing consortia have so far been international agencies (IBRD, OECD, and IDB), thus introducing to some extent the principle of multilateral decision. Each consortium attempts to co-ordinate all source of external borrowing by and lending to each country. In spite of this advantage of multinational financing sponsored by a multilateral agency, the consortium technique is only one insufficient step towards a co-ordinated international aid policy. It stops short of any de facto delegation of decisions to lend. The evaluation of a country's development programme provides valuable information which may induce creditors to lend but need not lead to the recommended volume of aid. Even if each of the consortium reports were based on the same criteria for allocation of aid - which will gradually emerge - it is entirely haphazard and accidental whether each country will in fact receive the suitable amount and composition of aid. This would only be possible if one, some, or all countries, or international agencies, were willing to "underwrite" the residual amount of aid, i.e., the amount required to make up the total lending appropriate for each country. Without such an international agreement to constitute a "loan fund of last resort", the consortium technique cannot achieve the result that the amount and composition of aid available to an underdeveloped country should not depend on the haphazard willingness of various countries to provide the necessary quota of both conventional and unconventional loans. This might lead to the undesirable result that country A might receive all that is recommended, while country B received less. Some countries might be willing to finance the attractive-looking projects and, having picked the plums, leave the rest

to other sources of financing. Consortia established for different countries may represent in international financing the equivalent of the single project approach instead of the programme approach. In the same sense in which single projects do not add up to a programme, individual consortium decisions need not result in an appropriate level of external aid for the various countries.

15. One form or another of underwriting a "loan fund of last resort" must logically complement the consortium technique. That would, however, require an independent international evaluation of national development efforts to be complemented by an effective undertaking on the part of the parties concerned to accept recommendations on the allocation of aid made by one co-ordinating committee (or more) set up for that purpose.

16. Progress towards a de facto delegation of decisions to allocate aid was achieved in the Alliance for Progress. Even though the principle has so far witnessed more lip service than actual application, it represents a decisive step forward in the doctrine of international aid.

III. THE ALLIANCE FOR PROGRESS: THE ROLE OF THE COMMITTEE OF NINE AND CIAP

17. What appeared to be impossible in 1954 at the Quitandinha Conference became possible in August 1961 at Punta del Este when the Alliance for Progress was created. The Kennedy administration in fact accepted the main Latin American proposals for a multilateral programme, including long-term pledges of aid which would supplement additional national efforts; the need for planning national development in order to make optimal use of international economic co-operation; and, last but not least the establishment of an independent international body of experts to evaluate national development efforts. The evaluations of this body, which was officially entitled the Committee or Panel of Nine (and was popularly known as the "Committee of Nine Wise Men") were to guide the allocation of external resources to member countries. The principle of multilateral decision was accepted, and the United States Secretary of the Treasury Douglas Dillon stated: "If a group of highly capable and impartial experts were established, my Government would expect their recommendations to be very important when deciding how to spend our resources for the development of Latin America. We would expect other friendly governments, potential suppliers of capital, would also accept these recommendations from the experts as a major factor in their decisions about help for Latin America". However, the functions actually assigned to the Committee of Nine had a more limited scope. The Charter of Punta del Este states in fact: "Each Government, if it so wishes, may present its programme for economic development for consideration by an ad hoc committee composed of no more than three members drawn from the panel of experts referred to in the preceding paragraph together with an equal number of experts not on the panel." The panel appears, therefore, as nothing but a list of names from which ad hoc committees for evaluation of national programmes should be formed. The submission of a development programme to these committees is not compulsory and their reports can be released only if the interested country consents. The Charter does, however, acknowledge the fact that "the recommendations of the ad hoc committee will be of great importance in determining the distribution of funds under the Alliance for Progress which contribute to the external financing of such programmes."

18. It is noteworthy that the members of the Committee of Nine were independent of Governments and therefore both of debtor and creditor countries. No single country could influence this body or its composition. The Committee consisted of seven Latin Americans, one United States and one European expert who were not responsible to any of the Governments. They were elected by the Council of Ministers of the

Inter-American System on the proposal of three Latin American institutions, the Organization of American States (OAS), Economic Commission for Latin America (ECLA) and The Inter-American Development Bank (IDB) to which the Inter-American Committee for the Alliance for Progress (CIAP) was subsequently added.

19. Despite its limited functions and scope, the establishment of a multi-national independent Committee of Experts whose judgment would guide the allocation of aid represented a great innovation in international relations. Their recommendations were not only directed to suppliers of external resources but also focused on what had to be done to step up national development efforts. Since national efforts were necessarily to provide the majority (80 per cent) of total investible resources, while external aid would provide 20 per cent of those resources, the new institution - had the innovation worked successfully - would in fact have brought about a reversal of the burden of responsibility from the contributor to the receiver of capital aid.

20. The role and functions of the Committee of Nine were considerably strengthened when the Committee worked out a set of regulations for its own work, which it applied and submitted in its report to the first annual meeting of the Inter-American Economic and Social Council (IA-ECOSOC) at the ministerial level in October 1962 in Mexico.^{1/} The decisions of the Committee were officially recognized in resolution A-6/M 62, adopted at that meeting on 27 October 1962. The regulations provided that each ad hoc committee evaluating a country's development programme should consider itself a sub-committee of the Committee of Nine as a whole. That alone would make it possible to apply common evaluation criteria. The Committee stated that, in every case, it would consider external aid as supplementary financing for a development programme as a whole.

21. The functions of the Committee should, strictly speaking, have been those of evaluating national efforts and recommending the amounts of external aid appropriate to supplement them. However, the multinational co-operative character of the Alliance for Progress naturally involved many other activities. In the absence of any other multinational body that could represent the Alliance, the Committee of Nine began to undertake these activities "discreetly and firmly."^{2/} On the other hand, the Committee of Nine felt that, in accordance with its role as an independent international

^{1/} See OAS document Ser. 4, Pan American Union, Washington, D.C., 1963.

^{2/} R. Saez, op. cit.

evaluating authority, it ought to confine itself to an assessment of required amounts of internal and external resources without having to negotiate with various national and international agencies for the implementation of that recommendation. It considered that implementation should be left to another multilateral but political agency. It therefore proposed a revision of the machinery of the Inter-American system. At Mexico in October 1962, OAS designated two leading personalities of Latin America - former President Kubitschek and former President Lleras Camargo - to propose such new machinery. On the basis of their report the Committee of Nine presented for the consideration of IA-ECOSOC in São Paulo in November 1963 a proposal for the establishment of the Inter-American Committee for the Alliance for Progress (CIAP).

22. The reasons for the establishment of CIAP were mainly twofold: (a) to express the multilateral character of the Alliance, and (b) to safeguard the independent character of the Committee of Nine's evaluation processes by assigning the political implementation of their reports to CIAP. The evaluation procedure of the Committee of Nine involved a separation between programming and financing: it concentrated on the evaluation of programming. This evaluation was not qualitative but quantitative leading to conclusions about: (a) the adequacy or inadequacy of national effort and (b) the amount of external resources required and recommended. While considerations as to the composition and form of external resources could be added, distinguishing between soft and hard loans, and the proportion of loans available for local expenditure, no attempt was made to apportion the global amount of external resources among the various sources (international agencies and Governments). The negotiations with those agencies, as well as the negotiations with Governments submitting programmes for evaluation on how to implement the recommendations, were to be the task of CIAP. CIAP thus logically complemented the action of the Nine; far from there being a conflict, there is complementarity between programming and financing. An independent international evaluation is logically followed by negotiations to implement the resulting recommendations.

23. The Committee of Nine proposed at São Paulo in 1963 that CIAP should "execute, co-ordinate and represent multilaterally the programme of the Alliance for Progress." Among the executive functions of CIAP proposed by the Nine the most debated at the São Paulo meeting was that of deciding "about the allocation of the Alliance funds according to the recommendations of the ad hoc committees responsible for the evaluation of the programmes." The proposal, because of its far-reaching political

implications, had to be considerably modified. In practice, CIAP was granted the power to make recommendations, and the United States through its representative, Averell Harriman, undertook "to give great weight" to these recommendations.

24. CIAP proceeded to organize annual country studies which were to evaluate the development programmes of all Latin American countries and notably the progress accomplished in implementing them. In those cases in which there existed evaluation reports by ad hoc committees of the Nine, the CIAP country studies took them into account. The reports of the Committee of Nine evaluated a long-term (5 or 10 years) plan of orientation as well as the operative plan indicating how the orientation plan was to be implemented during the next year. The CIAP country studies were progress reports with additional emphasis on the operative plan, involving three tasks: (a) to compare and contrast the ex ante projections and the ex post realization, and to establish reasons for any discrepancies; (b) to elaborate the next stage of the orientation plan after one or more years have passed since the last long-run evaluation. (If discrepancies were great between ex ante and ex post projections and were not due to accidental or exceptional circumstances a re-elaboration of a changed orientative plan might have to be undertaken); and (c) to elaborate the operative plan for the subsequent year.

25. In addition, CIAP was also to undertake the evaluation of such development programmes as were not submitted to the Committee of Nine for evaluation. In the longer run it was of course hoped that all countries would submit their plans to the Nine. Practical experience of evaluation by the Committee of Nine and to some extent also that of the country studies of CIAP are considered in section V of this study.

26. It must be remembered that CIAP, like the Marshall Plan Committee of OEEC, is a multilateral but not an independent body; its members are appointed by Governments and are not independent experts. As their recommendations were to be based on an independent multilateral evaluation by the Committee of Nine, the functional apolitical character of these recommendations would be manifest. The remaining part of their recommendations refer to measures necessary to implement and to negotiate the application of such principles. Even if such recommendations were not based on the findings of an independent body but only on studies of a staff committee of economists, this would still be very much better than a strictly bilateral loan negotiation. To the extent, moreover, to which CIAP bases its findings on functional economic considerations indicated by its advisory secretariat, this represents a substantial advance over a purely political negotiation. However, a lack of separation between programming and financing tends to blur the process of international evaluation.

27. The principle of multilateral independent evaluation incorporated in the Alliance for Progress - even in its weakened form - did not receive the enthusiastic support of Governments, despite the lip service paid to it. "The Alliance - contrary to its basic philosophy - was more and more considered as a way of obtaining aid not as an inherent part of an integrated development task not as a catalyzer but sometimes as a substitute for national effort. To obtain more aid seemed easier and more familiar in bilateral talks ... To submit aid decisions to a functional independent judgment, which is the backbone of the Alliance for Progress and of any enlightened international aid policy, received less and less lip service until it was practically dropped at the Buenos Aires CIES Conference in March 1966. To submit aid decisions to an independent judgment implies, of course, a sacrifice and limitation of national sovereignty as do all measures of progress in international relations."^{1/} At that conference it was proposed that the experts of the Committee of Nine should become an advisory staff of CIAP. Such a decision seemed to be a serious mistake: "to mix the technical, impartial judgment of the plans and other responsibilities of the Nine Wise Men with the decision of those who must carry out a political implementation, is to join two elements that should have been kept apart."^{2/} So great a change in the whole concept of the Alliance for Progress seemed to be involved that all the members of the Committee of Nine resigned in April 1966.

28. The independent multinational evaluation agency set up at Punta del Este in 1961 thus came to an end in May 1966. The progress which had been achieved - from the de facto delegation of decisions under the Marshall Plan to a multilateral, but political ministerial committee of the OEEC, to a fully independent multinational Committee under the Alliance for Progress - was not maintained. Time alone will show whether the experiment was premature or superfluous. It should be remembered, however, that the less perfect organization of the Marshall Plan - with admittedly

1/ P.W. Rosenstein-Rodan, "La Marcha de la Alianza para el Progreso" in Visión, New York, 1966.

2/ Raúl Saez, op. cit.

a less difficult task - was a conspicuous and undisputed success. Better handled imperfect tools may achieve more than imperfectly handled better tools. If we are not perfectionists, considering the better to be the enemy of the good, then we should recognize that the statutes of CIAP, with functions similar to those of the OEEC, could give it ample power to influence decisions. The Declaration of the Presidents of America in April 1967 again pledged vigorous support to the Alliance for Progress, emphasizing its multilateral character. The so-called Fulbright amendment, introduced in 1966 to the Foreign Assistance Act, does not attribute a full or positive mandate of decision-making, but it does establish the need for approval by CIAP for otherwise bilaterally negotiated loan agreements: "Loans may be made under authority of this title only for social and economic development projects and programmes which are consistent with the findings of and recommendations of the Inter-American Committee of the Alliance for Progress in its annual review of national development activities." Notwithstanding certain weaknesses, CIAP could play a very important role in multilateral decisions on Latin American development.

IV. THE MEANING OF MULTILATERALIZATION. CRITERIA FOR EVALUATION OF NATIONAL DEVELOPMENT PROGRAMMES

29. International action for economic development should be a partnership according to the modern development creed. The conditions are not unilaterally imposed, but are mutually agreed upon. The meaning of multilateralization does not refer primarily to: (a) targets; (b) projects (including even multinational projects); or (c) the forms of administration (national or multinational), but fundamentally to the spirit in which policy is operated and to the criteria of evaluation of development programmes by an independent multinational body with an operational conclusion -- which should command enough moral prestige to be accepted and applies -- as to how to allocate external aid resources.
30. While targets have been commonly proclaimed as consisting of three main groups: (a) rate of growth; (b) improved income distribution and social progress; (c) achievement of the above two targets within the framework of an open society with evolutionary democratic methods, the relative importance or weight attached to each of these aims, which in the short run are largely in conflict with each other, is strictly a national, not an international, responsibility. Any progress in achieving those targets (for instance, an increase in investment represented by an additional investment project) is a matter of national responsibility but of multinational concern. The evaluation of the national effort to achieve those targets should be a multilateral function delegated to a multinational and preferably independent body. The same principle also applies to the administration of aid funds.
31. This administration should proceed by applying multilaterally agreed upon principles. It is not necessary, even if it were desirable in the long run, that the administration of all aid funds should be concentrated under one international flag, provided that various national and international aid administrations operate according to the same multilaterally agreed principles. This might be called "bilateral aid in a multinational framework".
32. Aid should be allocated to different countries according to the same principle. Its primary aim should be to maximize additional national effort. If the additional efforts of countries cannot be measured, assessed or estimated, they cannot provide the basic criterion of aid. An evaluation of national development effort -- be it national or international -- presupposes the existence of operational criteria which

could be applied in practice to determine the amount of aid. Do such criteria exist and what are they? This is not the place to expound on and examine such criteria fully; that would require a separate study. Suffice it to say that, although approximate and subject to high margins of error and consequent zones of imprecision, such criteria do exist and can be applied to yield at least a ranking if not exact measurement of national efforts. Moreover, rough as they are, such criteria do not become any better if they are applied, or are said to be applied, by national instead of international agencies. The suspicion that they will not be functionally applied in bilateral relations is indeed all the greater because the criteria are rough and not easily grasped by non-professional public opinion. The very fact that only rough approximations, rather than exact measurements of national effort are possible, far from being an argument against delegating such judgements, is an argument for an independent and multilateral evaluation.

33. A rough sketch of the main problems of evaluation may be preceded by three methodological remarks. Firstly, economic theory can determine the necessary but not sufficient conditions of growth. The so-called "non-economic" factors account for the gap between the necessary and sufficient conditions. Any evaluation of development effort can only state that the necessary conditions for growth exist; it cannot predict with certainty that growth will actually take place. Secondly, most differences of opinion among economists originate from two sources:

- (a) different interpretation of data -- since data are mostly deficient; and
- (b) different interpretation of or assumptions about objectives (ends) -- since the welfare function is seldom explicitly given or even consistently felt. If both data and ends were given, there would be a large consensus as to how to apply economic techniques and few differences of opinion among economists would remain.

Thirdly, planning objectives are determined by the society's scale of values (value judgements) incorporated in a "social welfare function". These objectives relate not only to a rate of growth but also to income distribution and other social goals. The economist is no more competent to make these value judgements than any other citizen. The function of the economist, however, is to reveal and show explicitly the implications of policy decisions and also possible conflicts between various objectives. An international evaluation has to take the value judgements incorporated in the objectives of the national development programme as a datum.

34. The evaluation should, first of all, not fail to see the wood for the trees; it must assess the country's development effort and its strategy as a whole and not limit its attention to single project analysis. A collection of projects presented for financing does not add up to a programme, although any realistic programme should be specified in detail in projects. The various projects comprising a development programme are interrelated and reinforce each other. This balance depends on whether complementary activities have been planned on the required scale. It is therefore practically impossible to judge the soundness of any particular project without knowledge of the whole programme of which it is a part. The analysis and end-use supervision of projects can be undertaken as a sampling device to measure the execution of the programme and as a means of providing technical assistance in the preparation and selection of projects. These projects should of course satisfy the criteria of (a) additionality (i.e. they should represent additional investment) and (b) optimality. 54

35. Nor does investment consist only of what is normally described as projects, or even less as "bankable" projects. The necessary reorganization of the economy requires an effort in fiscal reform, administrative reform and agrarian reform, the progress in each of which is part of a national effort and should be judged as a fulfilment of a project. The same is also true of a typically "non-bankable" project taking the form of the expenditure necessary for the reorganization of the economy in the sense of providing for a diversification of exports. This is more easily said than done. The effort to switch out of coffee, cocoa, bananas, sugar, etc. into other exports must necessarily take several years. During the first, second, and third year of such an effort, no visible improvement in exports or yields appears on the surface. The reorganizing of exports is a project which has a gestation period of, say, five years when no increase in yield (there is even sometimes a fall in yield) will materialize during the first four years. Yet, unless this effort is undertaken when needed, the requisite diversification will not take place five years later. The investment necessary for projects of such long gestation requires external assistance. That, however, can only be provided within the context of a programme approach rather than within that of a single project approach.

36. There are, finally, two other reasons for a high proportion of programme-lending rather than project-lending. One is the fact that a multiplicity of small Don't say

projects does not lend itself to separate external loan negotiations, which can best be dealt with by national development banks that are given a separate block of loans for relending locally in small projects. More important is the situation where, for a certain period which may extend over one or two five year plans or even longer, the foreign exchange gap is greater than the resources gap. A deficiency of foreign exchange leads to the frustration of some potential national savings. If more foreign exchange were available, more national savings could be realized. In the transition period, however, before the two gaps become equal through a proper reorganization of the economy (by increasing exports or intensifying import substitution), the amount of ^{additional} external lending required may be greater than the increase in national investment. Yet this is the only way of obtaining an increase in national investment after the transition period.

37. National effort can be measured only in relation to given objectives. The rate of growth of income alone is not the only objective. Even so far as the economic goal of growth is concerned, the criterion of maximum increase in income in any particular five or ten-year period would not suffice. At different stages and different phases of development, more investment may be required to produce a unit of additional income than at others. This is invariably the case where, for instance, social overhead capital has to be built up first. Such investment in economic infra-structure yields directly only small increases in income. It creates, however, a framework necessary to the profitability of more immediately lucrative subsequent investments. The direct increase in income is less important here than the increase in investment opportunities. Income created per dollar of aid may, therefore, at first be low; far from being an argument for less aid, there are circumstances in which this might well be an argument for more.

38. The evaluation should assess a country's development effort as a whole, its absorptive capacity and its capacity to repay. According to the development potential and to the sufficiency or insufficiency of national effort, more or less external resources might be recommended as a supplement to national effort.

39. "Absorptive capacity" consists of two components: (i) the capacity to organize investment, i.e., the capacity to absorb capital (technical, or absorptive capacity in the narrower sense); and (ii) the capacity to mobilize national savings for investment, best expressed by the level of and the extent by which the marginal rate of savings is higher than the average rate.

40. The capacity to organize investment, involving pre-investment studies, project preparation and execution has its limits in every country. It can be stepped up in many under-developed countries -- as has in fact occurred during the past decade -- by nationally organized effort reinforced by technical assistance; there are, however, narrow limits to the pace and extent to which it can be expanded. If the rate of investment has been increasing in the past by, say, 5 - 6 per cent per annum, it might be raised by 25 - 35 per cent, to say, 7.5 - 8 per cent per annum. But it is not true to say that absorptive capacity depends entirely on the amount of effort one is willing to put into massive technical assistance. Outside skills and knowledge may well supplement but cannot entirely replace domestic abilities to organize and to administer. Education in the long run, and the transformation of habits in the short run, may widen the scope.

41. The capacity to mobilize savings can be stepped up more quickly, when savings are low, by institutional and fiscal reforms, notably by raising the difference between the average and marginal rate of savings; at average savings levels of 10 per cent of gross domestic product, the marginal rate could be twice or more than twice that high^{1/}. Judgement on a country's ability to mobilize additional taxes when incomes are rising may justify a projection far above the recently realized lower limit of the country's ability to save. A changing composition of output (more industry with high marginal rates of savings) will lead in many cases to foreseeably higher savings rates for the country as a whole.

42. While no exact measurement of absorptive capacity is possible, there is not in practice much difference of opinion about the "push" or "potential" of different countries; agreement can be obtained on a ranking order of magnitudes for a short period of the next few years. The longer the time distance the less certain is the judgement; hence the need for periodical re-evaluations.

^{1/} Of course, if higher savings cannot be readily converted into increased investment for want of an adequate supply of foreign exchange to finance the import content of higher investment, no useful purpose would be served by raising the rate of domestic savings. While in the short run increased national savings cannot replace foreign exchange, in the longer run such replacement becomes possible through a reorganization of the economy.

43. Capacity to repay. The flow of external resources should be within the limits, on the one hand, of absorptive capacity and, on the other hand, of the capacity to repay. While the first limit should preponderantly determine the amount of aid, the second should largely determine the method of financing it. The capacity to repay should not be assessed by a static projection of the present situation but should take into account the increase in income and the increase in the rate of savings -- as well as expansion in the export-gaining and import-saving investments -- which will result from the adoption of a soundly conceived development programme. Nor is it sensible to assume that the whole "hard" foreign debt of each country should be amortized within twenty or thirty years. The rational question is: how much foreign indebtedness can a country maintain in the long run? After, say, twenty years, the gross capital inflow may continue while the net capital inflow comes to a stop.

44. A development programme must be evaluated not only as to its consistency but also as to its feasibility. The question to be examined is not only "what is to be done" but also "how it is to be done". A development strategy can use various mixes and combinations of the instruments of economic policy, i.e., of monetary, fiscal, foreign exchange and commercial policy. The task of an independent multi-lateral evaluation is not to prescribe one mix rather than another but to ensure that a purposeful combination of policies should add up to an efficient -- i.e., not a multa non multum -- strategy of development. Governments are mostly more knowledgeable than independent experts as to which combination of policies is likely to be acceptable.

V. EXPERIENCE OF MULTINATIONAL EVALUATION OF DEVELOPMENT PROGRAMMES

45. The main technical difficulty confronting the Committee of Nine in their evaluation reports was the fact that very few of the development programmes were well worked out and contained sufficient and reliable statistical documentation. The very process of evaluation, however, helped to identify the main deficiencies of the development programmes and was conducive to their better preparation in time. In many cases the evaluation reports had to be necessarily preliminary and confined to a general assessment of the appropriateness of the general strategy of development. In other cases (for instance, in those of Chile, Colombia and Venezuela), in spite of many lacunae the evaluation report could be more thorough. Direct discussions with high officials or Ministers responsible for development policy decisions often succeeded in making both the national policy and the evaluation procedure of the ad hoc committee more consistent. It could thus to some extent modify and influence policy decisions and certainly also modify initial erroneous impressions about their content and rationale.

46. Foreign lending is an expression of national policy and is motivated by many factors not all of which are related to the promotion of economic development. It might be better, however, if lending for purposes other than that of economic development were handled under a different name; nor would it obviously be the subject of an independent international evaluation. While the United States never failed to implement in practice the recommendations referring to aid in the reports of the Committee of Nine, it did so consistently on the stronger basis of its own evaluation in the form of a strictly bilateral negotiation. In spite of the goodwill shown by AID, the bilateral loan negotiations, even if they corresponded to the recommendations of the ad hoc committees, never stressed the principle that the conditions governing United States aid were limited to those contained in the independent and multilateral evaluation reports of the Committee of Nine. Moreover, in many cases in which aid was given without an evaluation report by the Committee of Nine, the amount and the conditions of loan contracts were no less favourable than those that were based on such reports. No wonder that gradually the impression spread in Latin America that the conditions insisted upon by the Committee of Nine were in many cases more onerous than those which could be obtained in a directly bilateral negotiation. The Alliance for Progress was not conceived as a perfectionist

device. Even countries without development programmes or those which did not submit them to the Committee of Nine could not thereby be deprived of aid. But those who in fact submit their reports for evaluation and accept difficult and often painful decisions to implement the structural reforms postulated by the Alliance for Progress should receive more aid and more flexible conditions (for instance, the financing of local currency expenditure) than the others. Otherwise the positive inducement to do difficult things would tend to disappear; a moral obligation to implement the targets of the Charter of Punta del Este unfortunately does not in itself suffice. The United States in fact implemented the recommendations of the Committee of Nine evaluation reports, but never made it clear that those reports were the basis of its allocation.

Gradually, therefore, after 1964 the evaluation reports of the Nine carried less weight than they had previously. The conclusion to be drawn from this experience is that, unless the recommendations of an independent international evaluation are known to provide the basis for aid policy, the evaluation cannot achieve its objective. K

47. The country studies of CIAP, in its annual review of national development activities, were not generally understood to be a complement to the independent multilateral evaluations of the Committee of Nine and thus unintentionally created some confusion about and misunderstanding of the role of such reports. The procedure of this annual evaluation has two great advantages: (a) that of constituting a continual progress report on the implementation of longer run plans; and (b) that of providing a platform for contact among all agencies involved in providing aid. Although none of these agencies assume any obligation or commitment, the meetings yield additional information and occasionally suggestions of a different approach to diagnosis and prognosis. Representatives of the country who are present and confronted with evaluation have, moreover, a clear impression that decisions are not taken behind their backs or without their being heard. The CIAP evaluation process also has disadvantages, however, if it is not supplemented by or based on independent multilateral evaluation reports. Discussions in the presence of all agencies and observers - which, moreover, also lead to a public communiqué - are necessarily inhibited from probing too deeply and from raising difficult or embarrassing questions. K

48. The evaluation procedure is necessarily a long process which involves not only a thorough study but also a series of discussions, suggestions and de facto "negotiations" with the Government concerning the tempo of structural reforms and of accelerating the national effort is possible. Such discussions are in practice impossible in a public

hearing with all national and international agencies present. Nor can all the details of such discussions be aired publicly after they have taken place. The value of the evaluation report of an independent multilateral body such as the Committee of Nine does not consist primarily in its findings and conclusions but in the procedure of arriving at them by a series of discussions between the Government and the functional impartial body which does not represent either creditors or debtors. Such confidential discussions may enable the independent multilateral committee, such as that of the Nine, to understand the country's problem better and also enable the government to gain a better appreciation of the need for intensifying national effort. They will also make it clear that the recommended amount, continuity, and flexibility of aid will depend on what catalytic effect aid can be expected to produce in mobilizing additional national effort. However, the very nature of the Committee's work was such that a vital part of its discussions and persuasion had to take place behind closed doors if it was to be fully useful.

VI. CONCLUDING REMARKS

49. The preceding historical survey of the evaluation of the doctrine and of practical experience in evaluation reports of national development efforts reveals the many difficulties involved in its application and the proximate reasons for slow progress in that field. It also shows, however, that without such an independent and multi-lateral evaluation principle, suspicions in aid negotiations will not be removed and a co-operative spirit and improvement in international relations will not be achieved.

50. At the same time, the experience of the Committee of Nine demonstrates that the institution of an independent international evaluation machinery cannot be fully effective unless the parties concerned are willing to accept the major implications inherent in the adoption of such a procedure.

51. What is said about the evaluation of a national development effort as a whole also largely applies to partial evaluations of a special aspect of economic and social development, for instance, the evaluation of conditions under which supplementary financing should be given in cases of declines in export earnings. The main problem here again is whether this evaluation conveys the assumption of being both multilateral and independent. IBRD, for instance, is a multilateral agency. There may be two main arguments against it being the ideal evaluation agency whose verdict should be accepted and followed by all the others. The first and less important is that it is ultimately governed by government representatives (executive directors) who vote according to the shares held by their Governments; in their great majority those are creditor and not debtor countries. This fact dilutes its independent character, but only formally since in fact the management of IBRD is independent. The drawback is more in credibility than in content. The independence of the management may change in time, however, and may constitute a real weakness. A more serious drawback is the fact that the separation between programming and financing is lacking, since the same staff members of the Bank who evaluate the development effort also take part in loan negotiations, so that they are both judges and executors at the same time. That could be corrected by forming an independent subsidiary of international experts under their own statute and independent of IBRD. Economic survey missions of IBRD already frequently appoint heads of such missions from outside IBRD. The verdict of the mission has, however, to be accepted by IBRD. Institutional reform could correct that weakness in the future.

52. The International Monetary Fund (IMF) is a multilateral agency but not an "independent" evaluator in our sense and only examines one sector or one aspect of development; it cannot undertake the role of general evaluation. IMF may provide short-term assistance in dealing with balance-of-payments difficulties, but it was not intended to be the agency which should give the green or red light for the allocation of aid.

53. Who then should be the evaluators and how are we to avoid numerous overlapping multilateral evaluations? The multiplicity of evaluating missions at present imposes an unbearable burden on developing countries and necessarily detracts from the efficiency of the evaluation reports. Some delegation of decisions to one, two or three - but not ten, twenty or thirty - evaluating bodies is undoubtedly called for. The perfectionist solution would be for such evaluations to be both independent and multilateral. Nationalist feelings prevailing at present in both developing and developed countries stand in the way of realizing this ideal. Will evaluations which are only partly independent without the real delegation of decisions to an arbitrating body be acceptable? That may be the second or third best solution, representing a step towards the final goal of a truly independent international court of economic justice - but that may be below the minimum threshold of credibility and therefore fail to fulfil its object and function. The difference between a partly or wholly independent and partly or wholly multinational evaluation may be more than a difference of degree.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

Copies sent to:

Mr. Kamarck

Mr. Sarma

Paris, 11th January, 1968

DAC(68)5

DEVELOPMENT ASSISTANCE COMMITTEE

PROPOSED TIMETABLE OF COMMITTEE MEETINGS TO MAY 1968

(Note by the Secretariat)

1. The purpose of this note is to propose dates for the consideration in plenary D.A.C. meetings of several major issues featuring in the 1967-68 work programme.(1)

2. Dates proposed for the 1968 series of Annual Aid Reviews are covered in a separate note DAC(67)477. It is also, of course, understood that the various D.A.C. Working Parties will arrange their timetables of meetings to suit their own needs; and that they will bring forward in due time, for consideration in the plenary Committee, issues which they have under consideration.

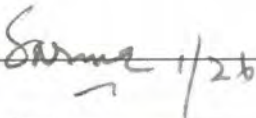
3. The meetings foreseen are:

<u>Subject</u>	<u>Date proposed</u>	<u>DAC(67)17(3rd revision)</u> <u>reference</u>
Educational Aid Policies and Programmes	April 2 - 4	para. 13
Private Investment Flows and Policies	April 30 - May 3	para. 19 (and discussion at 99th Session)
Multilateral Organisations		para. 24 (and discussion at 99th Session)

Preparatory work on all three subjects is under way in the Secretariat.

4. The second meeting may also provide a good opportunity for discussion of the results of UNCTAD II in the development financing field, after due preparation in the appropriate Working Party.


(1) DAC(67)17(3rd revision): See also DAC(67)34 - Major Issues Arising From the Annual Aid Review.

ROUTING SLIP		Date Jan. 26, 1968	
NAME		ROOM NO.	
Mr. Irving S. Friedman		1223	
To Handle		Note and File	
Appropriate Disposition		Note and Return	
Approval		Prepare Reply	
Comment		Per Our Conversation	
Full Report		Recommendation	
Information		Signature	
Initial		Send On	
REMARKS			
<p>Please see pp. 2-4 on Supplementary Financing.</p>			
From N. A. Sarma		 1/26	

OFFICE MEMORANDUM

TO: Files

DATE: January 15, 1968

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

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

2. IDA Replenishment

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

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

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

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

→ 4. Supplementary Financing

A very full discussion took place on this item with particular reference to a revised note distributed by the Chairman of the Working Party /DAC/UN(67)35(1st Rev.) dated January 4/7. The discussion mainly revolved around paragraph 3 of that note in which five alternatives are set forth and also around paragraph 5 in which the Chairman set out items on which he believed there might be a common factor of agreement.

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

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

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

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

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

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

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

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

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

of the Working Party.

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

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

See - 154

INCOMING CABLE

DATE AND TIME OF CABLE: FEBRUARY 5, 1968 1150
LOG NO.: WU 1/5
TO: INTBAFRAD
FROM: NEW DELHI

ROUTING	
ACTION COPY:	MR. FRIEDMAN
INFORMATION COPY:	MR. HOFFMAN
DECODED BY:	

TEXT:

4 FOR FRIEDMAN COPY HOFFMAN

REURCAB 4. DISCUSSED MATTER WITH EVERTS WHO DOES NOT EXPECT SUBSTANTIVE DISCUSSION OF SUPPLIERS CREDITS IN FINANCE COMMITTEE. THEREFORE WE FEEL SPECIAL REPRESENTATION FROM WASHINGTON SHOULD BE KEPT SUSPENSE. IF ANY NEW DEVELOPMENTS SHALL ADVISE

KARASZ

*Seen by Karasz
Advised Katmanoff } *OK**

MT

January 26, 1968

Dear Arthur:

Servan-Schreiber's AMERICAN CHALLENGE arrived at the same time as your letter. Thank you very much for sending it to me. I am sure I shall have fun with it and look forward to passing it on to Ken.

Thanks for reminding me about a representative from the Economics Department going to New Delhi in connection with suppliers' credits -- this is being arranged.

Looking forward to seeing you in New Delhi.

Sincerely,

Irving S. Friedman

Mr. Arthur Karasz
International Bank for
Reconstruction and Development
4, Avenue d'Iena
Paris

*Copies given to Kolmanoff
2/1/68*

Mr. Irving Friedman

With kind regards

ARTHUR KARASZ

~~DÉLÉGUÉ ADJOINT EN EUROPE ET
DIRECTEUR DU BUREAU EUROPÉEN~~

BANQUE INTERNATIONALE POUR
LA RECONSTRUCTION ET LE
DÉVELOPPEMENT

4, AVENUE D'IÉNA
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EUROPEAN OFFICE:

4, AVENUE D'IEÑA, PARIS (16^E) - FRANCE

Telephone - 553-2510



DATE RECEIVED
JAN 24 1968

January 22, 1968

Dear Irving:

I am sending under separate cover, airprint, Servan-Schreiber's "American Challenge". Have a good time with it and show it to Ken.

I would like to remind you of our conversation concerning the visit to New Delhi of a representative of yours, especially to attend the discussions on the study concerning suppliers' credits. I would be happy if you decide to send someone.

Thank you for your kind hospitality last Friday, and Eva and I are looking forward to seeing you very soon in New Delhi.

With kind personal regards,

Sincerely yours,

A. Karasz

Arthur Karasz

Book received at same time,

Mr. Irving S. Friedman
The Economic Adviser to
the President
International Bank for
Reconstruction and Development
Washington, D.C.

1968 JAN 24 11:20



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Cable Address - INTERBANK PARIS

INTERNATIONAL DEVELOPMENT ASSOCIATION

Cable Address - INDEVAS PARIS

EUROPEAN OFFICE:

4, AVENUE D'ENNA, PARIS (16^e) - FRANCE

Telephone - 583-2810



DATE RECEIVED
JAN 24 1968

January 22, 1968

Dear Irving:

I am sending under separate cover, airtight, Seivan-Schreiber's "American Challenge". Have a good time with it and show it to Ken.

I would like to remind you of our conversation concerning the visit to New Delhi of a representative of yours, especially to attend the discussions on the study concerning suppliers' credits. I would be happy if you decide to send someone.

Thank you for your kind hospitality last Friday, and Eva and I are looking forward to seeing you very soon in New Delhi.

With kind personal regards,

Sincerely yours,

A. Karsen

Arthur Karsen

Best regards to your wife

Mr. Irving S. Friedman
The Economic Adviser to
the President
International Bank for
Reconstruction and Development
Washington, D.C.

1968 JAN 24 PM 12:59

ADMINISTRATIONS

OFFICE MEMORANDUM

TO: Files

DATE: January 26, 1968

FROM: Bimal Jalan and Patrick de Fontenay

SUBJECT: Briefing to the Bank's Delegation to UNCTAD II, Meeting of January 19, 1968

1. Messrs. Demuth, Friedman, Hoffman, Karasz, Sarma, de Fontenay and Jalan were present.
2. Mr. Karasz said that he had met Mr. Woods the previous day to talk about UNCTAD II. On Supplementary Financing, Mr. Woods said that he agreed with the Bank Study, and that the role of the Bank mission in discussions on this subject should be that of technical experts. We should be prepared to answer questions of a technical nature, but otherwise leave it to the countries to reach a decision among themselves. On the question of IDA as the administering agency, Mr. Woods had said that our attitude should be that the staff of the Bank was not entitled to give any answer for or against. This question belongs to the future, and will be decided by the President and the Executive Board when it is brought up for consideration by the governments.
3. Mr. Karasz raised the question of a possible conflict between the supplementary finance scheme and the third IDA Replenishment. Mr. Demuth said that the Bank's position was that the present replenishment had priority; it did not mean, however, that for all time to come SFM could not be considered because of a possible conflict with resources for IDA. The donors would decide how much money they wanted to give for SFM; the question of subsequent IDA replenishment would be decided separately.
4. At UNCTAD II, the Bank might be asked to undertake some new studies. Mr. Woods had said that Mr. Karasz should report to the Bank as and when these studies are requested, the decision would then be made on a case-by-case basis.
5. Mr. Hoffman brought up the question of the papers that had already been promised to the Conference.
 - (a) Mr. Karasz said that he had talked to Mr. Macone about the paper on "Rubber". Mr. Friedman urged that great care be given to the preparation of a statement for the Mission.
 - (b) The Bank had also promised a study on the question of "financing of exports from the LDCs" (the Spanish-Tunisian Resolution on Suppliers' Credits) - Mr. Friedman said that Mr. Sacchetti was handling this; he hoped that it would be ready by February 10 or so, when the discussions on suppliers' credits were likely to begin at the UNCTAD. Mr. Friedman said that he hoped that by that time it would also be possible to update the statistics in the earlier study on suppliers' credits.

January 26, 1968

6. Mr. Sarma raised the question of the briefing papers for the Mission - he had already outlined the main issues for the UNCTAD in his memo of January 4, 1968 (addressed to Mr. Friedman).

(a) On the "interest rate structure of the Bank," it was agreed that the Treasurer's Department would prepare a paper for the use of the Mission (after Mr. Demuth has cleared it).

(b) On the "Bank's Capital Requirements Estimates," Mr. Friedman said that he would talk to Mr. Hawkins and see if we could have a brief paper on this for the use of the Mission.

(c) On "Bank's contribution to IDA" - Mr. Karasz already had a statement on this.

(d) On "financing public sector enterprises," Mr. Demuth said that Mr. Woods' address to the ECOSOC (March 26, 1965) was the best statement of the Bank policy in this regard, and should be used by the Mission to answer questions on this.

(e) The Algiers Charter had suggested that the IBRD should request prepayment of loans by the developed countries. Mr. Demuth said that this was not feasible, and in any case any such prepayments to the Bank could not be used by the IDA (as suggested by the Algiers Charter). A similar suggestion had been made at ECOSOC concerning prepayment of the Bank's "reconstruction" loans. Mr. Demuth had a table prepared for Mr. Woods showing that on reconstruction loans there is owing to the Bank only the small balance of \$16 million from Denmark. The table, which also shows IBRD loans to IDA Part I countries as of October 31, 1967, would be made available to the Mission.

(f) A statement on Bank's lending policy towards South Africa and Portugal was available.

7. Mr. Demuth said that his office would be the channel of communication between the Mission and the Headquarters.

cc: All present
Messrs. Kamarck
Sacchetti
Kalmanoff
Hawkins
Hulley
Macone

BJalan/PdeFontenay:mk

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

Copy sent to:-

Mr. Kamarck

Mr. Sarma

Mr. Sacchetti

Mr. Kalmanoff

Mr. Jalan

Prof. Frank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP

Date Jan. 22, 68

TO -	Name	Room No.
1	Mr. Irving Friedman	
2		
3		
4		

FOR -

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

REMARKS

FROM - Arthur Karasz

22 December 1967

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
Second session
Preparatory meeting
New Delhi, 29 January 1968

TENTATIVE TIMETABLE FOR THE SECOND SESSION OF THE CONFERENCE

Proposed disposition of agenda items in
the main committees

Note by the UNCTAD secretariat

In response to a number of requests from delegations, the UNCTAD secretariat has prepared a tentative order for the disposition of agenda items which the Trade and Development Board recommended should be allocated to the five main committees of the Conference. It would be for the Conference to allocate the remaining items (see e.g. the annotations to items 4, 9(f) and 14 of the provisional agenda (document TD/1), and paragraphs 4 and 9 of TD/PM/Misc.1). ^{1/}

First Committee - Commodity Problems and Policies (Item 10); 1 February to 15 March 1968

- Election of officers (Inaugural Meeting)
- 10 (b) (i) Operation and financing of buffer stocks
(ii) Role and financing of diversification programmes, and
(iii) Basic principles and guidelines for pricing policy, etc.
- 10 (d) Problems arising from the development of synthetics and substitutes
- 10 (c) Programme for the liberalization and expansion of trade in commodities of interest to developing countries.
- Adoption of the report of the First Committee.

^{1/} TD/PM/Misc.1 was distributed to Governments of States Members of UNCTAD. The present document is being distributed to all Conference participants since it is believed that the information it contains may be generally useful. The Annex to TD/PM/Misc.1 containing the tentative time-table giving the allocation of the number of meetings to plenary and main committees is attached to the present document for easy reference.

Second Committee - Expansion and diversification of exports of manufactures and semi-manufactures of developing countries (Item 11); 1 February to 15 March 1968

- Election of officers (Inaugural Meeting)
- 11 (b) Preferential or free entry of exports of manufactures and semi-manufactures of developing countries to the developed countries
- 11 (c) Programme for the liberalization and expansion of trade in manufacture and semi-manufactures of interest to developing countries
- 11 (d) Measures for the promotion, expansion and diversification of exports of manufactures and semi-manufactures from developing countries; etc.
- Adoption of the report of the Second Committee

Third Committee - Growth, development finance and aid (Synchronization of international and national policies) (Item 12); 1 February to 15 March 1968

- 12 (b) (i) Increasing the flow of international public and private capital
 - (ii) Improving the terms and conditions of aid
 - (iii) Alleviating the problems of external indebtedness
 - (iv) Improving the mobilization of internal resources
- 12 (c) Supplementary financial measures
- 12 (d) Compensatory Financing Facility
- 12 (e) International monetary system, issues relating to development finance and trade of developing countries
- Adoption of the report of the Third Committee

Fourth Committee - Problems of developing countries in regard to invisibles including shipping (Item 13); 1 February to 1 March 1968

- Election of officers (Inaugural Meeting)
- 13 (d) Consultation machinery in shipping
- 13 (c) Shipping industry in developing countries including expansion of merchant marines of developing countries
- 13 (b) Level and structure of freight rates, conference practices and adequacy of shipping services - progress report on studies by the secretariat

- 13 (e) Port improvements, Progress report on studies by the secretariat
- 13 (a) Review of recent developments and long term trends in the field of invisibles including shipping and international legislation thereon in the light of recommendations and other provisions of the Final Act of the first Conference.*/
 - (i)**/ Shipping legislation
 - (ii)**/ Review of recent development and long term trends in the field of insurance
 - (iii)**/ Review of recent development and long term trends in the field of tourism
- Adoption of the report of the Fourth Committee

Fifth Committee - Trends and problems in world trade and development (Item 9);
1 February to 8 March 1968

- Election of officers (Inaugural Meeting)
- 9 (b) Steps to achieve a greater measure of agreement on principles governing international trade relations and trade policies conducive to development
- 9 (d) Impact of the regional economic groupings of the developed countries on international trade including the trade of the developing countries
- 9 (e) Consideration of the measures leading to the improvement of the international division of labour
- 9 (c) Trade relations among countries having different economic and social systems including etc.
- Adoption of the report of the Fifth Committee

*/ In view of the suggestions of the Committee on Shipping, endorsed by the Board, that shipping questions should be considered during a continuous but definite period, it is suggested that the report of the Committee on these questions be considered by the plenary as soon as possible after it has been approved by the Committee.

**/ Although item 13 (a) is not subdivided the secretariat suggests that the subjects involved should be considered under separate sub-headings (i), (ii) and (iii).

ANNEX

TENTATIVE TIMETABLE FOR THE SECOND SESSION OF THE CONFERENCE
(Allocation of number of meetings to plenary and main committees)

	1-2 Feb.	5-9 Feb.	12-16 Feb.	19-23 Feb.	26 Feb.-1 Mar.	4-8 Mar.	11-15 Mar.	18-22 Mar.	25 Mar.	Total
Plenary - Items 1 to 8, items 9 (f) ^{*/} (g) and (h), items 14 to 19 of agenda	2	10	7			2	4	10	2	37
First Committee - Commodity problems and Policies (Item 10)	1 ^{**/}	6	7	8	6	6	3			37
Second Committee - Expansion and diversification of export of manufactures and semi-manufactures of developing countries (Item 11)	1 ^{**/}	4	4	4	6	7	3			29
Third Committee - Growth, development finance and aid (synchronization of international and national policies) (Item 12)	1 ^{**/}		6	6	7	8	3			31
Fourth Committee - Problems of developing countries in regard to invisibles including shipping (Item 13)	1 ^{**/}	8	6	6	3					24
Fifth Committee (Items 9 (b), (c), (d) and (e)) ^{*/}	1 ^{**/}			6	8	3				18
Number of meetings with full services in reserve for plenary and main committees		2				4	17	20		43
Total of meetings with full services	7	30	30	30	30	30	30	30	2	219
Number of meetings with interpretation services only for Bureau, working parties and group meetings		20	20	20	20	20	20	20		140
Grand total of meetings	7	50	50	50	50	50	50	50	2	359

^{*/} If the Conference decides to establish working groups to deal with certain items or sub-items of the provisional agenda such as 9 (f), 9 (g), 9 (h) and particularly 14, and depending on whether or not these items or sub-items would be examined after or without preliminary debate in plenary the meeting facilities required would be made available for this purpose, within the limit of (a) the meeting reserve with full services set aside for plenary and main committees; and/or (b) the meeting reserve with interpretation only.

^{**/} Short constituent meeting to deal exclusively with the election of officers in accordance with rule 65 of the provisional rules of procedure of the Conference.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

January 18, 1968

Phone Call - 2:40

Mr. Karasz just now mentioned to me that there was in the last few days a DAC meeting under the new Chairman. At this meeting Mr. James Mark suggested that negotiations on supplementary finance should not be allowed to break down, but attempt should be to get an interim resolution so as to continue the discussions.

Meanwhile, studies on the Rio Resolution, Fund's Compensatory Facility, etc. should be completed.

N. A. Sarma

Supplementary Finance and Commodity Stabilization Studies

1. The Board of Governors of the Bank adopted a Resolution at the 1967 Annual Meeting in Rio de Janeiro calling on the President of the Bank to have the Staff prepare a study on the problem of stabilization of prices of primary commodities, in consultation with the Fund Staff. A parallel resolution was adopted for the Fund. The study relates to the problem, its possible solutions and their economic feasibility. This important study has been taken in hand in the Bank by a task force headed by the Bank's Director of Special Studies, cooperatively with the Fund. The intention is to complete the Report, if possible, early enough so as to permit consideration by the Governors at the 1968 Annual Meetings.

2. It is not possible to indicate at this time what the conclusions of the Report would be; or what comments and recommendations our Executive Directors would make in transmitting it to the Board of Governors. We may, however, consider the relationship of commodity stabilization measures, in a general way, to supplementary financial measures. *1. ~~the~~ 2 SFS - study -*

3. It is, of course, well known that the volatility, uncertainty and slow growth of export earnings from their primary commodity trade has been a serious problem for a number of developing countries, especially because of their great dependence on export earnings for financing their development efforts. Several approaches have been under consideration to meet this *problem.* For some

*from
despite an unexpected
decline in export earnings*

aspects of the problem, the approach through international agree-
ments seems to be most suitable. For example, such agreements
would assure stability of prices of commodities within a certain
range, and may also give better access to certain markets. The
approach through the IMF Compensatory Financing Facility is useful
to even out the short-term fluctuation of the total export earnings
of a country. Finally, the proposal for Supplementary Financial
Measures would be useful to assure a given level of foreign ex-
change earnings to a country, and thus enable it to program its de-
velopment efforts more efficiently over a longer planning period,
by providing longer-term assistance in the event of unanticipated
export shortfalls which might disrupt a country's development
program.

*earnings
wrong*

of a decline in

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*distinct
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broad
category of
commodity
problems*

4. In view of the different approaches to the problems arising
from the commodity trade of the developing countries, it is useful
to clarify the relationships among them. In some ways, these ap-
proaches deal with the same problem in different ways, but in some
other ways they deal with quite distinct aspects of the problem.
Thus, progress in negotiating *and administering successful* commodity agreements is likely to
enable countries to have more accurate expectations of their export
earnings, on the basis of which to formulate their development
programs, and hence *would* reduce the cost of supplementary financial
measures. This effect would depend on the number of commodities
subject to agreements and the operative features of such agree-
ments, especially in regard to export volume. Insofar as com-
modity agreements seem to take a considerable time to negotiate

and conclude, this effect would be correspondingly postponed. Finally, even if a large number of commodity agreements have been concluded, they would not cover the total export earnings of a country so that there would still be need for the approach through supplementary financial measures.

5. Just as, more generally, trade promotion and development aid are not mutually inconsistent, commodity agreements and supplementary finance complement each other and are both needed. Accordingly, one does not prejudice or prejudice the other, and action on one need not await studies and consequential measures in the other direction. In fact, in a pragmatic framework, we can visualize commodity agreements for some major commodities in which developing countries are the chief exporters, and for the rest devise appropriate financial arrangements to safeguard the levels of total export earnings of developing countries.]

X
This is the judgment of the committee of the World Bank. It does not, of course, enter into the question what governments are prepared to do

January 11, 1968

Memo to: Mr. Irving S. Friedman
From : Isaiah Frank *IF*
Subject: Broadening of Conception of SF

I thought it would be useful if I set down a list of points I made yesterday to Ruth Gold, and later, to Tony Solomon.

1. The U. S. administration (including even the Treasury) supports the view that more financial assistance for development is needed than will be forthcoming over the next few years.
 - a. For fiscal year 1968, Congress appropriated the lowest foreign-aid appropriation in the twenty-year history of the aid program.
 - b. The likely IDA replenishment will fall far short of the \$800 million that the U. S. was prepared to support.
2. A corollary of the overall stringency in aid funds is the disappearance of the leeway which enabled the U. S. in earlier years to deal with emergencies.
 - a. I believe the U. S. contingency fund was cut to \$10 billion in the recent appropriation.
 - b. Supporting assistance, the other major cushion, is now almost wholly earmarked for Vietnam.
3. SF should no longer be regarded simply as a technical proposal responding specifically to the UK/Swedish resolution. Rather it should be looked upon as the basis for a new multilateral fund that will substantially augment total aid resources and also provide a pot of money to deal with contingencies. In addition to export shortfalls, SF could be used to meet a variety of other emergencies arising from causes beyond the control of developing countries:
 - a. increased import needs resulting from drought, flooding, freezing, or other natural disasters.
 - b. a decline in foreign-exchange earnings due to emergency restrictions by the advanced countries, e.g., U. S. tourism limitations affecting countries such as Kenya, Thailand, etc.
 - c. the emergence of major new aid claimants with improved prospects for development, e.g., Indonesia.

January 11, 1968

Memo to: Mr. Irving S. Friedman

From: Isiah Frank

Subject: Broadening of Concept of SF

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1968 JUN 12 AM 9:03

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Memo to: Mr. Irving S. Friedman, Jan. 11, '68

4. SF meets the view widely held among senior officials in State, AID, and the White House that aid deficiencies can probably be made up only through more "spigotry." A new international spigot has major advantages over a strictly U. S. one:
 - a. it is more likely to be financed in the ratio of 40 per cent from the U. S. and 60 per cent from others, rather than the reverse ratio prevailing in bilateral aid.
 - b. Congress has accepted the three-year-commitment pattern for multilateral aid (e.g., IDA and the soft window of IDB), whereas bilateral aid remains a one-year proposition.
5. Not irrelevant to the receptive attitude toward this idea is the feeling of disenchantment I encounter with the commodity-agreement approach. The current renegotiation of the Coffee Agreement has strengthened this reaction because it has become apparent to U. S. officials that producers are really not prepared to support production controls and a diversification fund which are at the heart of any long-run solution to the coffee problem.

January 10, 1968

Mr. Demuth	845
Mr. Kamarck	800
Mr. Karasz	845

The attached has been prepared by
Mr. Sarma as a basis for discussion on
preparation for the UNCTAD II meeting.

Irving S. Friedman

ROUTING SLIP		Date	
		Jan. 9, 1968	
NAME		ROOM NO.	
Mr. Irving S. Friedman		1223	
To Handle		Note and File	
Appropriate Disposition		Note and Return	
Approval		Prepare Reply	
Comment		Per Our Conversation	
Full Report		Recommendation	
Information		Signature	
Initial		Send On	
REMARKS			
<p>Herewith the revised draft, incorporating the changes suggested by you. Please see the sentence I have added about discussions with Berne Union officials, at end of para. 1, page 4.</p> <p>My idea is this may now be sent to Messrs. Demuth, Kamarck and Karasz, for a discussion of main issues, and for preparation of briefing papers in the respective departments.</p> <p style="text-align: right;"><i>Sarma</i></p>			
From			
N. A. Sarma			

UNCTAD II

Introduction

The second session of the United Nations Conference on Trade and Development will be held in New Delhi from February 1 to March 25, 1968. A provisional agenda for this session was adopted by the Trade and Development Board at its fifth session held in Geneva in August, 1967. Apart from the plenary sessions in the initial and closing stages of the Conference, the discussions will take place mainly in five committees (committees of the whole); there may be one or two working groups as well. The five main committees will deal with the following:

- (1) Commodity problems and policies;
- (2) Expansion and diversification of exports of manufactures and semi-manufactures of developing countries;
- (3) Growth, development finance and aid (synchronization of national and international policies);
- (4) Problems of developing countries in regard to invisibles, including shipping; and
- (5) Trends and problems in world trade and development, including review of implementation of UNCTAD I recommendations, and the world food problem.

Commodity Problems

With the breakdown of the Cocoa Conference, and the difficulties facing sugar and natural rubber in particular, the discussions on commodity problems in Committee I may tend to become argumentative. The operation and financing of buffer stocks, as a main element of international commodity arrangements, as well as the more general proposal of the French for market organization with a view to commodity stabilization, will figure prominently in the discussions. Our position so far has been that pre-financing of buffer stocks is not within the purview of World Bank Group activities; World Bank assistance is for furthering diversification and economic development. (Reference to the Joint Coffee Study.) However, following the Rio Resolution on commodity stabilization, studies have been taken in hand, cooperatively, in the Bank and in the Fund; it is not possible at this stage to anticipate the conclusions of these staff studies or the decisions that the Management and the Board may ultimately take on the matter.

General Preferences

A general system of trade preferences by all industrialized countries, on a non-reciprocal basis, is the major subject on the

agenda of Committee II. During the course of 1967, discussions have taken place in the OECD on the subject; while there are still several difficulties of a technical and policy nature, the donor countries have moved away in principle from the reservations they had on the subject at UNCTAD I, and there is now a basis for agreement. (We have little to say on this.)

Growth and Aid

In Committee III, dealing with development finance, substantial discussion and reporting may emerge on growth and performance, essentially in terms of a joint endeavor of donors and recipients. Developing countries recognize that the main responsibility for their development rests with them. Representatives of donor countries may be expected to argue for some spelling out of the "discipline of development." The spokesmen for some developing countries may propose impartial expert evaluation of plans and performance on a continuing basis. However, in the discussions on supplementary finance, developing countries as well as donors indicated a willingness to look to the regular work of existing (financial) institutions, as well as the coordinating procedures of consortia and consultative groups, for the evaluation of development programs and policies.

In regard to development aid flows--the other main aspect of development strategy--the representatives are likely to engage themselves in discussing the one per cent target--what the denominator should be (i.e., whether the target should be one per cent of net national income or of gross national product), whether the percentage should be raised, and similar questions--with little likelihood of any fruitful consensus being reached. The discussion will be also about the feasibility of a separate target for official flows; here again, questions will be raised of net amounts involved--and whether the amounts should be net of amortization only or also net of interest charges. A number of donor countries are not in favor of setting a separate target for official aid. However, mainly because of the lack of reliable data on private capital flows and, in any case, since it is recognized that little can be done through government action in regard to private capital flows, some of the donor countries (the Netherlands, Canada and the Scandinavian countries) may be inclined to have a closer look at possible guideposts separately for official aid.

Leaving aside the definitional and computational complexities of such matters, the main question here relates to whether donor countries will provide enlarged resources for the growth of LDCs. This, in turn, raises the question of an assessment of the capital requirements of LDCs. References will be made to our own estimate of \$3 - 4 billion of additional capital requirements, related to absorptive capacity of LDCs, and we will be expected to contribute to these discussions.

IDA Replenishment

If agreement on IDA replenishment has not been reached in principle before the Conference, this will be a main area of concern. That IDA replenishment on a substantial scale is of vital importance is recognized all around; agreed resolutions on this were adopted at ECOSOC (August, 1967) Trade and Development Board of UNCTAD (September, 1967), and United Nations Second Committee (October, 1967). LDCs have extended solid support to it in recent months.

Supplementary Finance

Supplementary financial measures is a separate item on the agenda, and is likely to come to the fore as a main item for consideration. The Intergovernmental Group Report was adopted in November, 1967, and has been forwarded directly to UNCTAD II. Sweden will actively urge agreement on the principles of a scheme broadly on the lines of the Bank Staff proposal; LDCs and some developed countries are likely to sponsor a joint resolution on the subject. On the basis that finance would not come up for active consideration, and on the clear understanding that financial commitments will not arise under SFM till 1970 or so, there seems scope for negotiating an agreement in principle at UNCTAD II. The fact that LDCs openly acknowledge the need for, and the appropriateness of, policy understandings and performance evaluation, is a distinct gain out of SFM discussions for the whole field of development finance.

Debt Problems

Another important subject relates to the external debt position of LDCs and terms and conditions of assistance, including difficulties arising from aid-tying. At the policy level, we may restate the view that debt rescheduling can only be on an individual-country basis, and that no across-the-board arrangements are possible. As for the factual position, the effort that is being done by the Bank Staff for collecting and collating the data could be described. A statement on the interest rate structure of the World Bank and IDA credit terms, as also the possible scope for redefining the procedures and criteria for IDA credits subsequent to IDA replenishment, might be useful, if feasible at the time.

Other Subjects of Interest to the Bank

Other subjects, in which the Bank Staff have been involved and may be called upon to make brief statements, are:

- (1) Horowitz proposal: The donor countries generally are disinclined towards this proposal, and the Bank Staff view essentially remains as it was put forward in our study.

- (2) Suppliers' credits: In the Bank Staff Study the need for regulation on both sides was noted; it was also indicated that a secretariat within the OECD could help on the creditors' side. The Algiers Charter proposes an intergovernmental group to deal with all aspects of commercial credits including suppliers' credit. The DAC members themselves see no need to set up any new international machinery to cope with the problem, but they may suggest more effective use of existing institutional arrangements. It may be noted that discussions have been initiated between officials of the Bank and the Berne Union to explore possibilities of cooperation for exchange of information and consideration of lending policy matters.
- (3) Multilateral investment insurance scheme: Reference may be made to studies by DAC and IBRD. Some account of current discussions in the Bank regarding machinery and procedures would be useful.
- (4) Convention on Settlement of Investment Disputes between States and nationals of other countries: This has come into force, and a Center for Settlement of Disputes has been set up. An account of the role of the Center, and the latest position in regard to membership, etc., would be useful.

Algiers Charter and Bank Group

The Algiers Charter also put forward the following recommendations, and these viewpoints may be stressed by some of the LDCs at the Conference:

- (a) Developed countries and financial institutions should extend and intensify their support to regional development banks;
- (b) IBRD should be made a Development Bank for developing countries exclusively. Repayment by developed countries of loans in advance of maturity should be secured, and the funds should be used to augment resources of IBRD and IDA to finance development of developing countries;
- (c) There should be no discrimination by international lending institutions against the public sector, in particular in industry;

- (d) Developed countries and international credit institutions should make investments in infrastructure in tourism in developing countries; and
- (e) International financing agencies should give priority to technical and financial assistance in connection with the special problems of the trade and development of land-locked developing countries--in particular with the development and improvement of their transport infra-structure.

Brief statements along the following lines may be in order on the above:

- (a) Our cooperative attitude toward regional development banks, in providing debt statistics service, in pre-investment surveys, and in other ways.
- (b) Now the IBRD is virtually a development bank for LDCs and there have been few loans in recent years to developed countries, though in earlier years sizeable amounts were provided to them for reconstruction and development. Prepayments of outstanding loans by developed countries do not seem feasible.
- (c) A large proportion of IBRD and IDA resources are directed to infra-structure investments in LDCs; these are largely through the public sector.
- (d) The construction of hotel facilities and such other assistance for tourism in appropriate cases is not ruled out. IFC has commenced doing this (e.g., loan and equity investments in a company in Kenya for the purpose).
- (e) In considering projects proposed by the LDCs, the World Bank Group takes due cognizance, in its normal methods of project appraisal and evaluation, of the importance of transport infra-structure for the trade and development of the land-locked countries.

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: January 17, 1968

FROM: N. A. Sarma *Sarma*SUBJECT: Export Shortfalls and Other Causes of Disruption

The report of the Intergovernmental Group has the following on the subject:

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

This question would be raised again by the representatives of some donor countries, especially the U.S., at the UNCTAD. Attached hereto is a draft statement which we may make, if it should become necessary. Or, you may perhaps like to suggest to Prof. Isiah Frank to attempt a shortened and revised version of Mr. Sundrum's paper, for circulation. (You had indicated this in one of our recent meetings.)

Enclosure

Export Shortfalls and Other Causes of Disruption

1. Some members of the Intergovernmental Group wanted a comparison of export shortfalls with other factors which might lead to the disruption of development programs. These other causes may be listed as

- (a) Shortfalls from expectations in Aid Flows
- (b) Shortfalls from expectations in Private Capital Flows
- (c) Unexpected Increases in Consumer Imports
- (d) Unexpected Increases in Prices of Imports.

We have discussed the question of import prices in the framework of our Supplementary Finance Study. Extending the coverage to increases in imports would raise the cost of the Scheme.

2. The attempt to make a quantitative assessment of the relative magnitude of export shortfalls compared with other causes of the disruption of development programs has not been possible. Within the context of the Study on SFM, the relevant concept of shortfalls is the one which related actuals to expectations. With respect to export shortfalls, we had an available body of experience in the Bank which we could use to give some statistical measure to this concept. Not only did we in the past, from time to time, observe in individual country experience the impact of variations and shortfalls in export earnings on a country's development, but we also had data on export projections for several countries for a number of years, which we could use for the purposes of our Study. There are no comparable data pertaining to expectations in respect to aid and private capital flows. We can only observe the

actual flows, and year-to-year fluctuations therein. The direction and volume of aid flows is determined by governmental decisions, themselves subject to various extraneous influences. No reliable data are available about private capital flows, and the movements have been highly erratic; we could, of course, have defined such expectations in an artificial manner, but the results would depend so crucially on the manner of deriving such expectations that the results would not have much validity.

3. We have, therefore, to fall back on a qualitative assessment of the problem. Some relevant considerations in such a qualitative assessment are:

- (a) Export earnings constitute the major part of the foreign exchange receipts of the less-developed countries, compared with the other categories of receipts.
- (b) Furthermore, export earnings are the chief source of foreign exchange for most of the developing countries individually, whereas other types of foreign exchange receipts have been highly concentrated in particular countries, especially in the case of private capital flows.
- (c) In considering "disruption" of development programs, the significant factor is not instability in the sense of fluctuations around a trend, but rather the extent to which actual flows diverge from expectations. Compared with export earnings, it may be observed that

official aid and private capital flows to individual countries have been more unstable over time; however, this does not necessarily mean that there are greater shortfalls from expectations in the case of such flows. In the case of official and private capital flows, negotiations are generally undertaken in advance of actual receipts and are also undertaken by agencies in the developing countries more directly concerned with the making and implementation of investment plans so that it is likely that any significantly large changes in these receipts are foreseen to a greater extent than is the case with export earnings. This consideration suggests that the instability of official and private flows does not necessarily mean a corresponding divergence of actual from expected flows.

- (d) Export shortfalls have been a clear causal factor in bringing about reductions in investments. It is not as clear that reductions in inflows of private capital are always causal factors since at times they seem to be more the consequences of prior decisions to reduce investment. However, the conclusion is not to be drawn that unexpected reductions in foreign aid and in inflows of private capital are not also important potential causes of disruption.

4. It is also useful to consider the relevance of an assessment of the various causes of disruption for policy action. Even if shortfalls

in official and private flows were as important in magnitude and disruptive effect as shortfalls in export earnings, it is difficult to imagine what international action can be taken to deal with such shortfalls, especially so in regard to inflows of private capital.

5. In conclusion, the major fact one has always to keep in mind is that their own export earnings constitute the bulk of the foreign exchange receipts of LDCs--some 85 per cent. Given the close relationship which exists between investment decisions and foreign exchange availabilities, it is obvious that shortfalls in these earnings can have an importantly disruptive effect on the development process.