1. The Group of Experts on Financial Assistance which originated in a proposal put forward by the Minister of the United Arab Republic at the ministerial meeting in May 1963, was established subsequent to a suggestion made by certain Ministers (MIN(63)7, paragraph 27). This suggestion was placed before the first meeting in September 1963, of the Action Committee which decided that the question should, in the first instance, be taken up by Committee III (AC/3, paragraph 33).

2. At its meeting on 21-31 October, Committee III, examining the problem of trade aid relationship, recommended the establishment of a small expert group. (L/2080, paragraphs 26, 27 and 30.)

3. Committee III agreed that the terms of reference of the Expert Group should be as follows (L/2080, paragraph 34):

   - taking into account the request contained in the Conclusions of Ministers (MIN(63)7, paragraph 27);
   
   - considering the work which has already been done in other international and inter-governmental agencies;
   
   - taking into account the discussion in Committee III of the proposals made in this regard;
   
   - to study the rôle of GATT in regard to the problems of relationship between trade and financial assistance;
   
   - to report to the Council.
4. The Committee also agreed on the following membership of the Expert Group:

United Arab Republic       United States
Argentina                  United Kingdom
Ghana                      European Economic Community
India                      Japan

5. The Committee also agreed to invite representatives of the United Nations Organization, the International Bank for Reconstruction and Development, the International Monetary Fund and the Organisation for Economic Co-operation and Development.

6. Minister Paul Jolles, delegate of the Federal Council for Trade Agreements (Switzerland) was unanimously elected Chairman of the Group.

7. The meeting of the Expert Group was held on 27-29 January 1964. In addition to the representatives mentioned in paragraphs 4 and 5, observers from Czechoslovakia, Indonesia, Norway, Portugal, Switzerland and Sweden were also present.

8. The Group had before it a proposal by the United Arab Republic (reproduced as COM.III/125 and annexed to this report).

9. The proposal essentially envisaged:

- granting of "soft" long-term loans by the industrialized contracting parties to less-developed countries within the framework of bilateral agreements;

- effective ways and means of co-operation between the CONTRACTING PARTIES and the international lending agencies, in particular, (a) through the establishment of a trade insurance fund; and (b) through the creation of an aid "club" under the auspices of GATT.

10. The expert from the United Arab Republic recognized that the proposal, as a whole, was only preliminary and would require a certain amount of further elaboration. It was, therefore, to be regarded as tentative but as having the definite aim of providing a basis for achieving concrete results. He stated that it was however not the intention of the proposal to convert the GATT into a lending agency. This was noted with satisfaction by the Group.

His proposal was prompted by the serious problem facing the developing countries as a result of the inadequacy of their foreign exchange earnings, which is held to be primarily a trade problem inasmuch as it reflects the need to fill the gap between export proceed and import requirements. An urgent need,

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1 Experts from the following countries were present at the meeting of the Group: Belgium, Federal Republic of Germany, Italy, Kingdom of the Netherlands.
therefore, exists among developing countries for financing on terms other than conventional terms which do not bear heavily on their balance of payments and do not impair their ability to foster their trade with the highly industrialized countries.

11. The experts from Argentina, Ghana and India, welcoming the initiative taken by the United Arab Republic, underlined the urgent need for developing countries to bridge the gap between their export proceeds and import requirements. They stressed the importance of the relationship between trade and financial assistance and of the rôle that GATT could play in this field as a link between lenders and borrowers, and by studying the problems involved in adapting financial assistance to the trade structure of the receiving countries, taking into account their development needs.

12. Experts from certain industrialized countries stated that their governments were conscious of the need to provide assistance on terms appropriate to the developing countries. In particular, the experts from the United States, the United Kingdom and the Federal Republic of Germany quoted figures showing the considerable assistance afforded by their respective governments in recent years and the terms on which it is given, thus contributing to the basic objectives of the United Arab Republic's proposal. The expert from the OECD pointed out that other members of the OECD and, in particular, of its Development Assistance Committee, had also made efforts to attain this objective.

13. Some experts also drew attention to the growing rôle private capital flows should play in the development of new export and import-saving industries, in particular through joint ventures which in addition to funds, provide technical and commercial know-how and thus stimulate trade.

14. At the same time, it was recognized that a number of points contained in the United Arab Republic's proposal would require further clarification and elaboration. Moreover, since these proposals had been the subject of detailed study for considerable time elsewhere, the Group did not think it possible, given the short time at its disposal, to enter into their details.

15. The experts of the less-developed countries nevertheless wished to reserve their right to revert to the discussion of the proposal at an appropriate time in the future.

16. The Group, considering the basic objectives underlying the proposal of the United Arab Republic, unanimously agreed to concentrate its efforts on the question of the rôle of the GATT in trade-aid relationships.

17. The responsibilities which the CONTRACTING PARTIES have recently undertaken in the field of studies of development programmes would render an intensified collaboration between GATT and the lending agencies particularly fruitful. The
Decision of the CONTRACTING PARTIES calls for concerted, systematic and prompt studies of trade and aid relationships in individual less-developed countries aimed at obtaining a clear analysis of export potential, market prospects and any further action that may be required to overcome any difficulties that the studies reveal.

18. As regards financial assistance, the rôle of GATT should be in providing trade expertise, both to assist developing countries in drawing up their development plans and projects, and to contribute, through a better knowledge of trade problems, to the work of the lending governments and agencies.

19. The Group felt that the collaboration between the GATT and other international organizations should become a regular feature of their studies of plans and policies for economic development of less-developed countries. It further felt that the lending governments and agencies should, and would, undoubtedly, wish to take into full account in their financial operations, the relevant aspects of the studies and discussions of the CONTRACTING PARTIES and their subsidiary bodies on development programmes and policies as well as on aid and trade relationships. Care should be taken to avoid this collaboration becoming a delaying factor.

20. The representative of the International Monetary Fund noted the long-standing collaboration between his organization and the GATT. The representative of the United Nations noted that his organization regularly collaborates with the GATT and other agencies in matters of common interest regarding aid and trade relationships, and expressed the readiness of the United Nations to continue close collaboration in the future. The experts from other international organizations, in particular the experts from the International Bank for Reconstruction and Development, expressed their broad agreement with the views stated above, and declared their readiness to intensify the collaboration already existing in this field between GATT and other international organizations.

21. As regards the question of establishing a legal basis in the General Agreement for the CONTRACTING PARTIES activities in this field, the Group recommended that the Committee on the Legal and Institutional Framework should take this report into account.
The proposals put forward by the United Arab Republic delegation, and which are submitted for discussion in this Working Group, are definite suggestions designed to devise ways and means for implementing the Conclusions adopted by many Ministers in the ministerial meeting of May 1963 with respect to the question of financing. It will be recalled that at that meeting the Minister of the UAR, in his statement, laid emphasis on the serious problem facing the developing countries as a result of the inadequacy of their foreign exchange earnings. He made the point that this problem was first a trade problem inasmuch as it reflected the need to fill the gap between export proceeds and import requirements. He then referred to the fact that capital goods necessary for development constitute the greater part of imports of the developing countries. The implementation of the development programmes is of a vital necessity to the developing countries in order to diversify their economies, increase the per capita income and raise the standard of living of their peoples. With the inadequacy of their foreign exchange resources and the low level of domestic savings, the developing countries cannot attain self-sustained growth without foreign financial assistance. For this reason the UAR Minister stressed the need of developing countries for financing on terms other than hard conventional terms which do not bear heavily on their balance of payments and do not impair their ability to foster their trade with the highly industrialized countries.

In the course of the discussion of this question in Committee III, in its meeting held during the period 21 October-1 November 1963, the UAR representative pointed out in his statement (document COM.III/121 dated 28 October last) that these proposals were not intended to convert the GATT into a lending institution. Their aim was simply to confer upon the GATT the sponsorship of financial assistance to the less-developed Member countries, and achieving closer co-operation between the GATT and the international lending institutions.
A point which might need clarification in this connexion, however, is that the UAR proposals are not substitutes but rather complementary as they are designed to cover various aspects of financial assistance. Before summarizing the main features of these proposals it might be appropriate to draw a comparison between the GATT and the lending institutions.

The purposes of the IBRD, stated briefly, are to assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes; to promote private foreign investment; and to promote the long-term balanced growth of international trade and the maintenance of balance-of-payments equilibrium. It was also concerned in the immediate post-war years with assistance for the purpose of achieving smooth transition from a war-time to a peace-time economy.

The International Monetary Fund being primarily concerned with the promotion of international monetary co-operation aims at facilitating the expansion and balanced growth of international trade, the promotion of exchange stability and the maintenance of orderly exchange arrangements, the establishment of a multilateral system of payments and the elimination of foreign exchange restrictions which hamper the growth of world trade. By making its resources available to member countries the Fund aims at enabling its members to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

As regards the General Agreement on Tariffs and Trade the contracting parties recognize the need to conduct their trade relations with a view to raising standards of living, ensuring full employment, developing the full use of the resources of the world and expanding the production and exchange of goods. Such objectives are achieved through reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other trade barriers and to the elimination of discriminatory treatment in international trade.

This comparison reveals that the GATT as well as the leading international lending institutions have many common features as they all aim, though by different means, at the establishment of orderly international relationships with a view to promoting economic development as well as the expansion of world trade. This has important implications for our Working Group since if the lending institutions pay attention to the problem of trade expansion the interest of the GATT in the problem of financing could be well justified.

It is to be recalled that circumstances today are quite different from those of the immediate post-war period when the Bretton Woods Agreements came into force. The evolution of the Bretton Woods institutions to adapt themselves
to changing circumstances was actually a necessity to cope with international economic and financial developments, and increasing interest had to be shown in the problems of development of the less-developed countries. The creation of the International Finance Corporation and the International Development Association as affiliates of the World Bank and the introduction of the IMF General Arrangements to Borrow known as the "IMF Club" and recently the arrangements for compensatory financing of export fluctuations coupled with the increase in the IMF and World Bank resources, all these bear witness to the process of adaptation and evolution.

The expansion of the activities of the GATT to embrace the financing aspect as recommended by the Ministers of the less-developed countries in order to bridge the gap between export proceeds and import requirements, the extension of the work of Committee III in collaboration with other interested agencies and in particular the lending agencies in the field of trade and aid relationships, and the increasing attention paid to the legal and institutional framework of the General Agreement with a view to revising its principles and rules, also bear witness to the fact that the CONTRACTING PARTIES have grasped the need for the evolution of the General Agreement. It is in this spirit of appreciating the need for continuous adjustment to suit changing conditions in the world of today that the UAR proposals have been submitted.

The main features of these proposals may be summarized as follows:

I. The amendment of the General Agreement

The General Agreement would be amended to include a provision for the granting of financial assistance by the industrialized contracting parties to less-developed countries within the framework of bilateral agreements. Under such assistance long-term loans (not less than ten years) would be granted on soft terms (interest and other charges not exceeding 3 per cent) for the following purposes:

(a) the financing of development projects relevant to the expansion of international trade,

(b) covering trade deficits resulting from unexpected falls in export proceeds and/or from severe internal damage in production.

Such an amendment of the General Agreement would not necessarily entail any additional burden to the contracting parties who are already providing financial assistance to the less-developed countries on a bilateral basis. The proposed amendment of the General Agreement in the manner suggested by the UAR representative in his statement to Committee III does not entail converting the GATT into a lending institution.
However, it aims at extending the effectiveness of GATT into the sphere of conditions favourable for the growth of international trade, and specifically when these conditions relate to obtaining the necessary financing for development plans in accordance with the stipulations of the proposed article, such stipulations which also require the GATT secretariat to keep record of the terms of financial arrangements, thus contributing to the creation of a sympathetic and protective atmosphere for the financing of the less-favoured Member countries.

In this regard we can recall with benefit the pitfalls into which borrowers and lenders can fall as reiterated by the Presidents of the World Bank on different occasions. On the other hand, we representatives of developing countries know, but too well, the would-be importance of such a development within the framework of GATT as discussed by our Group to the smooth execution of our respective economic plans.

II. The Trade Insurance Fund

The second proposal was concerned with a joint meeting of the representatives of the international lending agencies and of the CONTRACTING PARTIES to arrange for effective ways and means of co-operation and to study the establishment of a Trade Insurance Fund, preferably as an affiliate of the IMF, so that overhead costs would be minimized.

The purpose of such a fund will be to provide compensation to primary producing GATT Members against shortfalls in their export earnings, brought about by circumstances beyond their control. Such compensation which would be paid automatically might take the form of final settlement or might be on a mixed basis, i.e., partly in the form of a final settlement and partly in the form of long-term loans at low rates of interest. It would seem reasonable to expect such compensation to be related to the weight of the damage taken as a ration of normal export proceeds. Both industrialized and less-developed countries of GATT would contribute to this Fund through premiums to be determined according to certain equitable criteria. Obviously, whilst developing countries would be the party directly benefiting from this Fund, the trade of industrialized countries would surely ultimately benefit as the two sets of economies are naturally interdependent.

The idea of the Trade Insurance Fund might have started somewhere else, but there is no doubt that a scheme that would stabilize the export earnings of the less-developed countries, would naturally lessen the occasions of those countries having to resort to import cuts and other similar measures disruptive of world trade, and hence is an indicated target for the GATT organization to aim at.
III. The GATT Aid Club

The third definite proposal introduced by the UAR is the creation of an Aid Consortium under the GATT auspices. This was inspired by the IMF "General Arrangements to Borrow" established in 1962, and might be conceived as an adaption of the stabilization scheme proposed by the Organization of American States.

The purpose of the "club" or "consortium" to be set up by the GATT would be to grant less-developed Member countries loans on easy terms for meeting unexpected shortfalls in export earnings and other payments difficulties relating to trade and development.

In contemplating the proposed scheme, the following considerations were kept in mind:

1. The GATT, as previously explained, is not to be converted into a lending institution;

2. The achievement of a closer co-operation between the GATT and existing international lending institutions;

3. Making use of the mechanism established by the IMF in the field of compensatory financing.

As regards the latter point, the establishment of the proposed "club" should not be considered as a duplication of the facilities introduced by the IMF since on the one hand its coverage would be wider whilst on the other hand the GATT assistance would be more liberal and less costly than the IMF facilities. Indeed, it would be a welcome supplement to the IMF resources devoted to the problem of compensatory financing of fluctuations in export earnings.

In the following we may tentatively elaborate in outline the structure and functioning of the proposed "club".

Membership in the proposed "club" extends originally to all contracting parties but may be subsequently extended to embrace other members and international organizations.

Initial resources can be agreed upon, subject to subsequent increases.

As to the use of the resources of the Club, it is not intended that they compete but rather to complement other sources of financing. This can be through making available fresh funds when the other institutions have reached their prescribed limits in giving help, or by giving credit facilities at softer terms than available elsewhere.
Another way of providing financial help to the developing countries without depleting the available resources will be to offer guarantees to other financing agents, or to subsidize the rate of interest charged by another lender.

Naturally there will be rules and regulations to determine the drawing rights and entitlements to assistance. There will also be suitable and adequate deterrents to discourage the abuse of the fund's resources.

To recapitulate, the UAR proposals to expand the activities of the GATT to embrace the financing aspect are based on three different approaches viz:

1. The amendment of the General Agreement to include provisions for enabling the less-developed countries to obtain financial assistance from the advanced contracting parties on favourable terms and on a bilateral basis.

2. The establishment of a Trade Insurance Fund to insure the less-developed contracting parties against fluctuations in their export earnings.

3. The establishment of a GATT Aid Club to mobilize resources for the purposes of compensating and/or assisting the less-developed contracting parties in cases of shortfalls in export earnings and/or payments difficulties connected with trade and development.

The last two proposals are envisaged within the framework of closer co-operation with the international lending institutions.

To conclude this statement I would like to stress the fact that in presenting our tentative proposals for discussion before this Working Group we hope to have laid down some basis for achieving concrete results. These proposals, no doubt, involve a host of technicalities and certain aspects still require further elaboration. This should not stand in the way of the deliberations of this Group with a view to achieving some agreement on the broad outlines of the schemes, thus paving the way for the CONTRACTING PARTIES to take concrete action in the field of financing as soon as possible. Fortunately there are available serious technical and comprehensive studies relevant to one or another aspect of the proposed schemes elaborated by United Nations experts and by IMF staff.

Surely these studies will prove a valuable point from which to start on any further effort to working out the details of the concrete schemes that may be finally recommended.