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## Developed and Developing Countries in IMF Cooperation or Confrontation

Interview with Dr Günther Schleiminger, Executive Director,  
International Monetary Fund, Washington, D.C.

*The establishment of the IMF came as the result of an initiative of the industrialised countries. But by now an increasing number of developing countries has signed the agreements. Has this led to a shift in tasks and problems?*

The International Monetary Fund has been right from its beginning a "universal" institution, with industrialised as well as developing countries participating in its creation. Among the founding fathers of the Fund, experts e.g. from India, other Commonwealth countries, and many of the Latin American countries took an active part in drafting the Articles of Agreement.

The Fund's main purpose is to ensure the proper functioning of the international monetary system to the benefit of all its

members. In many ways the IMF is an answer to the process of monetary and economic disintegration that occurred in the interwar period. In order to reverse this process and avoid its repetition, rules of conduct were laid down in the field of international payments which are indivisible. The countries that have joined the Fund later (and most of which are developing countries) have explicitly subscribed to these rules and are sharing with the original members all rights and obligations. I think it would be most harmful for international monetary cooperation if we should differentiate, as the general standards of conduct are concerned, between „classes“ of countries.

This does not exclude, however, that the Fund in its day-to-day policy takes account of

the very specific problems of the developing countries. The IMF will not only continue to do so in a pragmatic and understanding way, but will also consider, in the light of experience, how to improve the assistance to member countries according to their specific problems and difficulties. In doing so, the Fund has, nevertheless, to bear in mind, that little would be gained by any group of countries, if the general functions of the Fund as a watchdog of the international payments system were impaired. This is generally recognised by the developing countries. The fairly negative attitude these countries have taken with respect to greater exchange rate flexibility (when this subject was recently discussed in the Fund) is characteristic for their rather strong attachment to the spirit

and the letter of the Bretton Woods Agreement.

### Problems of LDCs

*The developing countries are demanding a new formula for fixing quotas. Is the IMF ready to, at least partially, consider these demands?*

It was agreed during the last review of quotas, which had been undertaken in 1969/70 and which had ended with an increase in total quotas by about one third, that the so-called Bretton Woods Formula for the determination of quotas should be reviewed for the purpose of future adjustments. This matter will, therefore, appear in the future work program of the Executive Board of the IMF. No specific proposals or "formulae" have yet been submitted. It is generally understood, however, that any formula for the determination of IMF quotas would, as in the past, have to be based on objective criteria.

*One of the main problems seems to be to achieve a steady flow of foreign reserves by compensatory financing in order to pay for necessary imports. Has any progress been made in this matter?*

The Fund is very conscious of the fact, that more than 80 p.c. of the developing countries are producers of primary commodities and are often subject to fluctuations in their export earnings because of sharp changes in the prices of these goods. While the resulting payments difficulties have always justified these member countries to have

recourse to the Fund's resources, the Executive Board has in 1962 and 1963 examined whether the Fund could give some special assistance to primary exporting countries, in addition to their normal rights to borrow. As a result, a facility for "compensatory financing of export fluctuations" was introduced in 1963 and expanded in 1966. Under this scheme members can draw on the Fund whenever their export receipts from primary products fall below a medium-term trend. This facility has been extensively used by primary producing countries: since 1963 drawings totalled nearly \$400 mn, and outstanding drawings under the facility are in the neighbourhood of \$200 mn.

### International Buffer Stocks

*The IMF has established a scheme for financing buffer stocks of raw materials. Is this system already operational?*

It is correct that in July 1969 the Executive Directors have introduced another plan to assist the primary producing countries. The scheme is geared not to the compensation of export fluctuations but aims directly at the stabilisation of the prices of primary products as far as this can be done within the framework of the IMF Articles of Agreement. Under this plan the Fund will assist members, subject to some clearly defined conditions, to finance international buffer stocks. One condition is that the buffer stock arrangement conforms to standards laid down by the UN.

Technically the scheme is closely linked to the facility for the compensatory financing of export fluctuations which I described in answering your Question 3. The International Tin Agreement may be the first one to which the new assistance could apply. But probably it will take some time until one can judge this new scheme on the basis of practical experience.

*The compensatory financing and the buffer stock scheme are only directed towards the short term compensation of fluctuations of export earnings. Are there any plans for a longer-term compensatory financing?*

Both schemes are subject to the normal terms for Fund assistance, which is 3 to 5 years and which I would not describe as short term. In addition the facility can be used again, if the difficulties for which it has been set up, reoccur. A longer-term financing for whatever purposes could not be reconciled with the Fund's Articles of Agreement and with the character of the Fund as a monetary institution. In most of the cases the IMF facility will, however, be sufficient to help the primary producing countries overcome cyclical fluctuations of their export earnings. It can, of course, not cope with the effects of longer-term downward trends of commodity prices. If such longer-term price movements are to be expected—and I am not sure this is the case—the problem of their repercussions on developing countries could only be solved by invest-

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ments for diversification of the economies. Here we clearly enter the field of the responsibilities of the World Bank.

A study started by the World Bank some years ago on the possibilities of setting up a supplementary financing scheme has so far not come to the conclusion that the financing of such a scheme would be more useful for the development of the economic resources in primary producing countries than the present investment policies of World Bank and IDA. To sum up, I have doubts whether the total availability of financial funds could really be increased by creating a new scheme.

*Developing countries have occasionally suggested that the IMF profits should be invested in World Bank Bonds with low interest rates. Would this be a realistic measure to provide developing countries with low interest credits?*

Any investment of the Fund's net income in bonds of the IBRD would raise a number of operational and legal problems. While these problems might well be solvable, the effect on the interest rate for credits by the World Bank would be rather negligible, because of the small size of the Fund's net income in relation to the total of the Bank's operations. The possibility of such an investment will nevertheless also be placed on the Executive Board's agenda for further consideration.

*In developing countries the activation of SDR is primarily*

*seen in relation with the financing of necessary imports. Has the recommendation that industrial countries should transfer 25-75 p.c. of their quota to the IDA any chance for realisation?*

This question aims at the so-called "link" between the creation of international liquidity and the financing of aid to developing countries. The advantages and disadvantages of such an approach have been widely discussed in the UN, UNCTAD and other international bodies. At the moment there is no agreement among countries (nor among individual experts) about the merits of such a "link". From a practical point of view I have serious doubts whether any form of "link" would lead to an increase in total aid. Under the proposal to which you refer it is quite likely that the SDR transferred to IDA would be deducted from the budget appropriations for foreign aid by the national parliaments. From a more general point of view I should stress the point that development aid means a transfer of real resources and that there is "no easy way out", as the proponents of the "link" sometimes seem to assume.

The purpose of the creation of SDR, as stated in the Articles of Agreement, is "to meet the long-term global need ... to ... supplement existing reserve assets", which is quite a different consideration as the financing of imports to which you refer in your question. Money creation in favour of development aid would increase world

demand for goods and services and would add under present conditions to excess demand and inflation in the world (which the SDR system is aimed to avoid as is explicitly stated in the Articles). If a country wants to transfer parts of its reserves to IDA, it is perfectly free to do so already now.

#### **Towards a World Central Bank?**

*Do you believe that the development of the IMF towards the central bank of the world could help to solve the worldwide currency problems?*

Yes, I do believe that the SDR system which is the first major reform of the IMF in the 25 years of its existence, is a major step to an improvement in the international monetary system and thereby will help to solve the worldwide currency problems. Both the industrialised as well as the developing countries will benefit if the Fund assumes certain functions comparable to those of a central bank, as you assume. However, great responsibility will have to be exercised if this development is to take place. The IMF will have to remain basically a monetary institution, strongly defended against all kinds of political pressures, and no use should be made of its instruments for purposes for which they have not been designed. Otherwise the old experience could repeat itself also internationally: "With printing money one can certainly do many things—but regrettably not for a very long time."



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