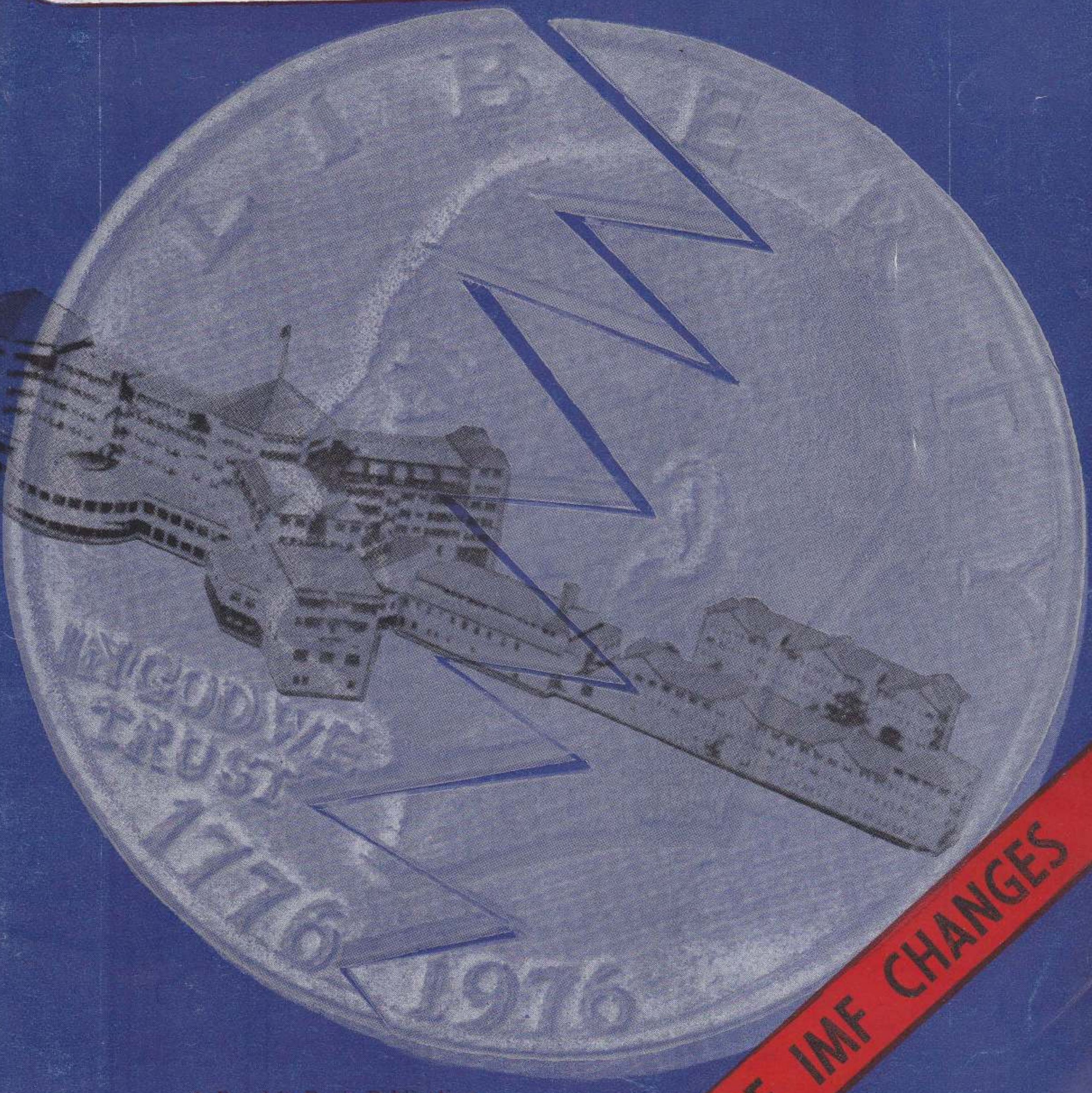
ECONOMIC REVIEW

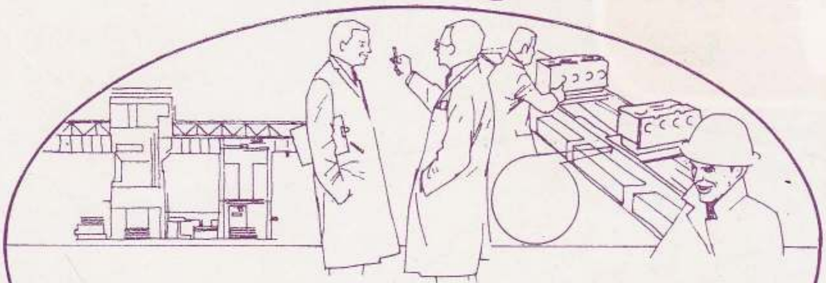
1978
April



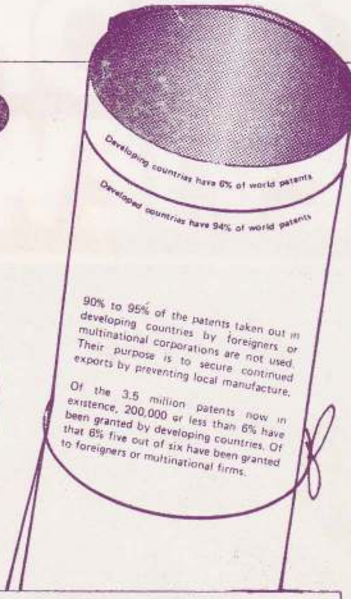
THE IMF CHANGES

A People's Bank Publication

The Technological Gap



98% of the world's technological research and development is located in the developed world — leaving just 2% for 70% of the world's people.



Bill for Technology

UNCTAD estimates that the direct financial cost of technology imported by the Third World (for patents, licences, use of trade marks, know-how and consultants) was $ 1.5 billion a year by the end of the 1960's. It could reach $ 9 billion a year by the end of the 1970's — more than all the development aid presently given each year by the rich world.

TOTAL $ 1.5 billion
Rich world

The United Nations

In terms of providing technical assistance to the Third World, the UN Development Programme is the most important of the UN agencies and has been given the key role in the TCDC conference in Buenos Aires this September.

During 1974, 2,557 out of 6,834 fellowships awarded by UNDP were for study in developing countries. (about 37%).

In the same year, 6798 out of 9809 experts serving in developing countries were from the industrialised nations (nearly 70%).

Also in 1974 UNDP purchased nearly $ 47 million of equipment of which $ 6,587,000 came from developing countries (about 14%). Of the $ 28,219,000 in sub-contracts awarded by UNDP, $ 2,166,000 or about 8% went to the developing world.

The Technological Gap

	Developed countries (not including Soviet Union and E.Europe)	Africa	Asia	LA
Scientists and Engineers per 10,000 of population	112	5.8	22	69
Technicians per 10,000 population	142.3	8.3	23.4	72.7
Scientists and Engineers engaged in Research and Development per 10,000 population	10.4	0.35	1.6	1.15
Expenditure on Research and Development as percentage of GNP	1.2	0.6	0.3	0.2
Professionals and Technicians as percentage of economically active population in manufacturing	11.1	–	2.7	5.7

figures for 1970

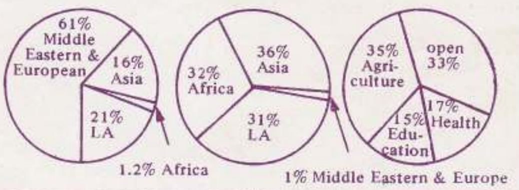
Technical Co-operation- State of the Art

In preparation for the TCDC Conference a "Directory of Services for Technical Cooperation Among Developing Countries" has been published, listing over 900 organisations in 67 countries which offer technical cooperation to other developing countries under 16 different headings of technical expertise.

A survey in 75 Developing countries showed that

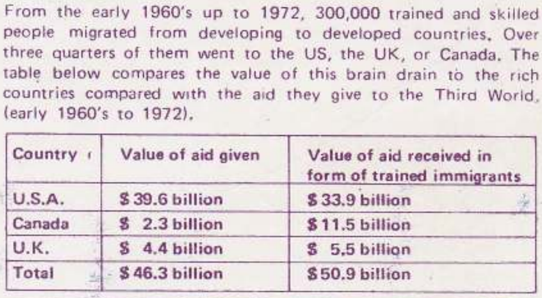
- 28 of them were providing technical cooperation to 55 others. Providing experts was the principal way of providing technical cooperation
- The cash value of the technical services was $ 60 – $ 75 million

The Providers within the group | **The Receivers within the group** | **What kind of Technical Cooperation**



The Brain Drain

A flow of know-how from the poor south to the rich north.



From the early 1960's up to 1972, 300,000 trained and skilled people migrated from developing to developed countries. Over three quarters of them went to the US, the UK, or Canada. The table below compares the value of this brain drain to the rich countries compared with the aid they give to the Third World. (early 1960's to 1972).

Country	Value of aid given	Value of aid received in form of trained immigrants
U.S.A.	$ 39.6 billion	$ 33.9 billion
Canada	$ 2.3 billion	$ 11.5 billion
U.K.	$ 4.4 billion	$ 5.5 billion
Total	$ 46.3 billion	$ 50.9 billion

Source: New Internationalist

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THE ECONOMIC REVIEW is intended to promote knowledge of and interest in the economy and economic development process by a many sided presentation of views & reportage,facts and debate.

THE ECONOMIC REVIEW is a community service project of the People's Bank, its contents, however, are the result of editorial considerations only and do not necessarily reflect Bank policies or the official viewpoint. Signed feature articles also are the personal views of the authors and do not represent the institutions to which they are attached. Similar contributions as well as comments and viewpoints are welcome.

THE ECONOMIC REVIEW is published monthly and is available both on subscription and on direct sale.

NEXT ISSUE

- Co-operatives in Sri Lanka — a historical overview, their present status and possible future; with relevant international comparisons.
- Marketing of spices in Sri Lanka.
- The future of Sri Lanka's desiccated coconut industry.
- The oil rich states and their economies since the oil boom. The case of Kuwait.

COVER

A symbolic representation of landmarks in the IMF's history. The site of the international Monetary Conference in July 1944 at Bretton Woods with a dollar as the backdrop. Artists D. Nandasena of the IDB and Palitha Ekanayake of the People's Bank.

DIARY OF EVENTS

1 The dollar plunged to its lowest level in the history of money, going below two West German marks and throwing international currency exchange markets into a state of crisis.

The Reserve Bank of India lowered its interest rates for deposits as well as advances, while keeping the bank rate unchanged at 9 per cent. This measure was intended to stimulate investment and production, the Governor of the Reserve Bank said in Bombay.

The Government invited proposals from reputed airlines and financial houses interested in investment participation, for management services and the provision of aircraft for the establishment of a new international airline for Sri Lanka. These proposals are expected to come in before March 31, 1978.

2 Vietnam's Prime Minister Pham Van Dong arrived in Sri Lanka on a four day good-will mission.

4 The Maldivian Government has decided to award a $ 11-million airport construction contract to India's Government-owned airport authority, stated a *Reuter* report.

5 The number of passports issued by the Department of Immigration and Emmigration has gone upto about 12,000 a month, the Controller told the press. Over the whole of 1972/73 only 12,000 passports were issued.

6 A ministerial — level meeting of the Trade and Development Board of UNCTAD opened in Geneva to tackle the issue of generalised debt relief. UNCTAD has pointed out that developing countries would save more than $ 600 million a year in debt service payments if developed countries would convert all official debts owed by 29 of the world's poorest countries into grants and would increase the grant element for 16 other Most Seriously Affected countries.

10 The appointment of a Board of Directors for the Agricultural Development and the objects of the Authority were formally announced.

Prime Minister Fukuda of Japan has asked his ministers concerned with economic affairs to move fast to save the Governments reflationary programme from the havoc being caused by a rising yen, reported the Indian *Financial Express*.

11 The world's industrialised states, at the conclusion of an UNCTAD meeting in Geneva, undertook to try to help poorer developing countries to solve their debt problems by easing terms of loans they had already granted countries.

India has agreed to supply Vietnam with a loan of 300,000 tons of wheat, valued at US $ 56 million together with a credit for US $ 50 million for the rebuilding of the country's transport system, following the recent visit of the Vietnamese Prime Minister to India, according to *East/West News*. India has also offered help to rebuild Vietnam's railways, establish textile factories and other industrial plants and assistance in improving dairy farming.

12 The World Bank has reached an agreement with the Government of Sri Lanka for financing a comprehensive integrated rural development scheme in Kurunegala, over a three-year period. The program will serve as a model for other such development schemes throughout Sri Lanka, according to a Ministry of Plan Implementation briefing note.

The assessment by ESCAP of the Asian and Pacific region in 1977 presented at the annual sessions in Bangkok stated that "the region recorded satisfactory economic performance in 1977, although it continued to be vulnerable to agricultural uncertainties and dependent on developed country markets where protectionism is spreading".

13 The Ministry of Industries and Scientific Affairs has decided not to allow any more factories within the city limits of Colombo. This decision has been taken in order to disperse industries outside the metropolitan area, states a press announcement.

West Germany has doubled the amount of credit it has extended to the United States to US $ 4 billion, the German Finance Minister said in Bonn.

17 The Greater Colombo Commission announced a series of investment incentives for licenced enterprises setting up within the area of authority of the investment promotion zone.

A crop improvement project for Sri Lanka valued at 330,000 Canadian dollars was among the over 25 development research projects approved by the Board of Governors of the International Development Research Center (IDRC) at the inauguration of its policy sessions which began at the BMICH in Colombo.

21 A record price for tea was fetched at the Colombo Auctions when a kilogram of tea from Miyanavita State Plantations fetched Rs. 495.

India has decided to set up a Coconut Development Board the Union Minister of Agriculture told the inaugural meeting of the Coconut Development Council in New Delhi.

28 The seventh session of the Third U.N. Conference on the Law of the Sea opened in Geneva.

29 The Government approved a proposal of the Ministry of Plantation Industries to set up a Palmyrah Board to develop palmyrah plantations and industries in the Jaffna, Mannar and Trincomalee districts.

30 A three member Special Presidential Commission of Inquiry, to inquire into and obtain information in regard to the misuse or abuse of power during the period May 1970 to July 1977, was announced.

THE IMF CHANGES

A Second Amendment

The Second Amendment to the International Monetary Fund's Articles of Agreement which came into force from April 1 this year is regarded as one of the most massive and intricate revisions of a major treaty that has ever been undertaken. The Amendment entered into force for all 133 members of the IMF, including Sri Lanka, following its acceptance — as required under the Articles — by three fifths of the Fund's members representing four fifths of the total voting power. This Second Amendment represents a complex revision of the Articles which was intended to modernize the entire organisation and provide for the operation of the Fund in present day conditions of the world economy. It therefore introduced new and flexible provisions for the IMF to deal with exchange arrangements, and provided for a gradual reduction in the role of gold in the international monetary system and also for changes in the characteristics and expansion of the uses of Special Drawing Rights (SDR) with the hope of enhancing the SDR's status as an international reserve asset.

The amended set of Articles of Agreement of the IMF are now binding on all members of the Fund whether they have accepted them or not. The formal acceptance of the amended Articles by Sri Lanka was accomplished by the passing of the Bretton Woods Agreement (Special Provisions) Bill by the National State Assembly during the first week of April and final enactment in the statute book as Law No. 10 of 1978. This brings Sri Lanka in as an active participant in the "New International Monetary System" that the IMF's Second Amendment expects to establish.

In order to understand more closely the characteristics of this second revision of the Articles and appreciate their general significance it is useful to examine the events that led to the collapse of the Bretton Woods system and the need for amendments in the original Articles of Agreement.

The world underwent a fundamental shock in its economic structure during the Second World War. At the end of the war a realignment of economic relations for the non-Socialist world was apparent; the most obvious aspect of realignment being the emergence of the United States as the leader of the Western World . All the European economies had been largely exhausted or destroyed after the war and only the U.S. economy seemed to be in a position to provide essential reconstruction aid. The memories of monetary turmoil of the capitalist countries in the twenties and thirties was still fresh and concern about a possible recurrence was widespread. These memories and concerns prompted the major Western nations to convene at Bretton Woods, New Hampshire, in 1944, in order to design a workable international monetary system.

The outcome of this conference was a comprehensive blueprint of an International Monetary System which sought to combine certain features of the old gold standard with a greater degree of flexibility and some measure of control over international liquidity. The organisation to be responsible for the new monetary system was the International Monetary Fund which was established on December 27, 1945 when representatives of countries whose quotas amounted to 80 per cent of the Fund's resources had deposited their ratification of the Bretton Woods Agreement. The original Articles of Agreement of the IMF was signed by 44 nations. (Socialist nations being non-members).

At Bretton Woods the principle that the international monetary system must facilitate unrestricted trade and investment was affirmed.

It was agreed that national currencies would be defined in terms of gold parities, and exchange rates would therefore be fixed. Only in case of fundamental disequilibrium in its balance of payments would a country be expected to change its exchange rate. Also, international liquidity would be made available in sufficient amounts to tide countries over periods of temporary (rather than fundamental) balance of payments deficits.

The role of assisting countries in temporary balance of payments difficulties thus fell to the International Monetary Fund. The principal feature of its organization was to create a fund or a pool of many different currencies on which individual countries would be able to draw in times of need.

The essential features of the original Articles of Agreement can be summarised as follows:

(i) Establishment of a new permanent institution, the IMF, to promote consultation and collaboration on international monetary problems, to administer the Articles, and to lend to member countries in balance of payments deficit.

(ii) Establishment of a par value system whereby the value of each member's currency is expressed in terms of gold or the US dollar. Gold was treated as common denominator and the primary reserve asset of Bretton Woods system.

Countries freely buying and selling gold in settlement of international transactions were deemed to be adhering to the requirement that they maintain exchange rates within a narrow band of one per cent around par value. Thus, the United States — the only country that met this condition — was not expected to intervene in the foreign exchange markets; rather, other countries would intervene mainly by buying or selling dollars against their own currencies to keep their rates within one per cent of their parities with the dollar.

(iii) Introduction of obligations on the members to maintain market exchange rates for their currencies within one per cent of the declared par value. Except for transitional arrangements permitting one-time adjustment of up to 10 per cent in initial par values, members would change their par values only after having secured Fund approval; and such approval would be given only if the country's balance of payments was in "fundamental disequilibrium". The term "fundamental disequilibrium" was, however, not officially defined by the IMF. Under this arrangement, temporary and cyclical imbalances were to be financed by drawing the resources or through borrowing from the Fund and were to be corrected by policies other than exchange rate adjustment.

(iv) After the transitional period, members were required to permit convertibility of their currencies in the sense that members would undertake to redeem balances of their currencies acquired by other members. Restrictions on current account payments and all discriminatory currency practices were discouraged.

(v) The Fund would provide liquidity to countries in deficit, out of holdings of gold and currencies arising from subscriptions by its members in relation to their "quotas".

(vi) The members were permitted to adopt exchange controls on imports and other current account purchases from a surplus country, when the member's currency had become "scarce".

Thus, for the first time in history a central monetary institution which covered the majority of the countries in the (capitalist) world was established and a universal set of rules of monetary behaviour was formulated. Until the 1960s the international monetary system (also known as the Bretton Woods system) created by the IMF operated without dislocation. Yet, the experience upto the 1960s also indicated the inherent weaknesses of the system.

By the 1960s the U.S. dollar had replaced the sterling pound as the numeraire of the system, the principal reserve asset and the main intervention currency. In fact, the dollar was even considered superior to gold because of convenience in handling and interest yield. This heavy reliance on a national currency — the US dollar — was the root cause of the defects which began to emerge after the establishment of the Bretton Woods System. This reliance on the dollar is also related to the US's dominance in the political sphere in the post World War II period.

One of the major weaknesses of the Bretton Woods system was that though it was intended to promote international monetary cooperation and the expansion of international trade it failed to provide explicitly for a systematic means by which world reserves could grow with world trade and the world economy. In practice, the growth of international reserves became a by-product of the balance of payments deficits experienced by the US. The US created international money by expanding her liquid liabilities to the rest of the world. Of course, during the period upto the 1960s, the rate of interest in reserves could not be treated excessive, considering the rates of growth of income, output and trade.

Nevertheless, the world's dependence on the US balance of payments deficits for reserves was not considered to be a healthy arrangement. It was argued that if the process continued the US reserve liabilities would lead to a decline of net reserves of the US and this would provoke the suspension of convertibility. Such a situation could cause a disintegration of the world economy. On the other hand, if the US corrected its deficit, the inadequacy of liquidity would strangulate world trade and economic activities.

Another weakness of the system was the ambiguity with regard to the balance of payments adjustment responsibilities. Problems of deficits were dealt with on an individual basis. No one was reviewing the adjustment process from a systematic stand point, inquiring whether the balance of payments policies and the aims of individual countries were compatible with each other and with a stable international monetary order.

Further, the Bretton Woods system could not offer a solution to the movement of speculative capital. (Capital movements was a serious problem by the 1970s). Although the Fund's Articles had assumed that controls would suppress such flows, it was neither possible nor desirable to control flows without controlling all international transactions.

The changing circumstances of the world economy from the 1960s onwards began to lead to serious difficulties in the observation of the rules of conduct of the Bretton Woods system. The US balance of payment deficit in the early 1960s caused concern among European countries, and hence ideas on the need for reform of the international monetary system began to emerge as early as 1962 when the British were considering far reaching reforms. The need for reforms were further endorsed by President Kennedy when he stated in July, 1963; "one of the reasons that new sources of liquidity may well be needed is that, as we close our payments gap, we will cut down our provisions of dollars to the rest of the world". Consequently, the Group of 10 deputies were appointed in October, 1963 to study the "functioning of the international monetary system and of its probable future needs for liquidity". The report of the deputies stated that gold will continue to be the ultimate international reserve asset, though it is not possible to expect new gold promotion to meet all liquidity needs of the future. As far as the international reserve currency was concerned, it said that with the shrinking of the US balance of payments deficit the contribution of dollar holdings to the growth of international reserve currency was unlikely to continue as in the past; and confirmed that there would be a need for the search of some additional kind of international currency. This was followed by the establishment of a Study Group under the Chairmanship of Rinaldo Ossola of the Bank of Italy to study the creation of Reserve Assets.

In June, 1964, 32 non-governmental economists from eleven countries, under the leadership of Professor Fritz Machlup completed another study on *"The International Monetary Arrangements: The Problem of Choice"*. This report covered three main areas: (1) adjustment (of imbalances), (2) liquidity, and (3) confidence (or the problems of instability arising from possible conversions from one reserve asset to another). The study offered various alternative ways of dealing with the problems such as centralisation of international reserves in the IMF (or another institution); multiple currency reserves which would involve diversifying the reserve currency function among a number of countries and agreeing to rules on the ratio in which various reserves would be held; and flexible exchange rates. There were other policy proposals on which there was no unanimous agreement among the 32 countries.

An international monetary crisis began to develop from the mid 1960s particularly because of the weakening positions of the pound sterling and the US dollar. Britain had to struggle to maintain the foreign exchange value of the pound beginning from around mid 1964. The weakening position of the pound in foreign exchange markets culminated in a devaluation of the pound by 14.3 per cent on November 18, 1967. Despite the devaluation and the introduction of stringent monetary and fiscal measures aimed at improving the balance of payments, sterling remained weak in exchange markets during 1968. The devaluation of sterling in 1967 undermined the view that prevailed upto the early sixties that the exchange rates of economically powerful countries could be regarded as fixed. The experience since British devaluation, in fact, shattered this view.

Bretton Woods System Disintegrates

From 1968 onwards, inflationary pressure began building up in the US economy. One of the major factors that contributed to the rising prices was the excess demand created by the increasing defence expenditure consequent to the US involvement in the Vietnam war. The US President failed to get Congressional approval for tax increases to finance the defence budget. During the 1970-71 period, the US balance of payments deficit reached crisis point. Furthermore, the rate of unemployment also rose rapidly. Against these developments in the United States, West Germany and Japan emerged as countries with large balance of payments surpluses. The US authorities considered that the deterioration of the US trade position from early 1960s to 1971 was due to the increased trade surplus of Japan and Germany. Hence, the US expected those two countries to initiate the adjustment process by revaluing their currencies. In May, 1971, the West German authorities abandoned the par value and let the mark float; and the Netherlands guilder followed. However the currencies of most other European countries and Japan remained unchanged. Finally on August 15, 1971 the US suspended the convertibility of the dollar into gold, and imposed a temporary 10 per cent surcharge on imports requesting other countries to revalue their currencies. Thus, for the first time since the inception of the IMF, the gold exchange standard broke down and the par value system ended. This was the final stage in the disintegration of the Bretton Woods system. It was the suspension of official convertibility that trigged the reform negotiations over the international monetary system, during the ensuing period.

The upshot of the US action was a widespread floating of currencies by other countries. By the end of August, 1971, all the major currencies except the French franc were floating. The US was most concerned about the weakening position of its dollar which could be restored only by realising a trade surplus in 1973. This shift could be brought about by a realignment of exchange rates, trade liberalisation and sharing of America's defence budget; and from August 1971 onwards the US negotiated with European leaders with the hope of achieving these objectives. These negotiations culminated in an agreement reached on a realignment of currencies, including a devaluation of the dollar at a meeting of the Group of Ten at the Smithsonian Institute in Washington during December 17-18, 1971.

In the six years from 1966 to 1971 the Fund created a new reserve asset, the convertibility of the dollar into gold or other reserve assets was terminated, and the Bretton Woods system of par values collapsed. Though these fundamental changes in the international monetary system were going on, the Fund's financial operations continued on a large scale, with aggregate drawings of U.S. $11.7 billion in this period.

The events of 1966–71 had their origin in earlier years and they extended into later years. The creation of special drawing rights (SDRs) for example, was the fruition of discussions inside and outside the Fund that began as far back as 1958. In December 1971, the large industrial countries had just agreed on a new pattern of exchange rates which they hoped would restore a more flexible system of par values. That did not happen.

After the Smithsonian Agreement in December 1971 attention of the monetary authorities in the developed world was turned to long-term reform of the international monetary system. For this purpose an "ad hoc" study group, the Committee of 20 (C-20), was created within the framework of the IMF. The composition of the Committee was determined by the twenty constituencies of members of the Fund that appointed or elected Executive Directors to the Fund.

Meanwhile, pressures from the Third World were also mounting. At the third UNCTAD conference, held in 1972 at Santiago, a resolution on monetary reform was responsible for the creation of a "Group of 20". The New Group undoubtedly increased the bargaining power of the poor countries within the IMF, though this really came only in the 1970's with the shift of financial power to OPEC. Earlier, in the 1960's the Compensatory Finance Scheme sponsored by the IMF were generally unacceptable to the poorer countries as conditions seemed too stringent. For instance, the Compensatory Finance Scheme inaugurated in 1963 stipulated that if a country's export earnings are lower than the average of the earnings of the present and last two years, the IMF will allow the country concerned to draw up to 25 per cent of its IMF quota. The scheme applied only to earnings from merchandise exports, and the IMF allowed a country to benefit from the scheme only if it were convinced that the decline in export earnings had not been deliberately created and was of a relatively short-run nature. Repayment was expected within three to five years. At the instigation of UNCTAD, the IMF extended the scheme to allow an additional compensatory drawing of another 25 per cent of the members quota. However, this facility could be availed of only if the IMF was satisfied that the country concerned was strictly following the recommendations of the IMF to deal with the problem of export instability. The developing countries have generally refrained from making extensive use of the IMF's Compensatory Finance Scheme, though the situation has improved since 1966 when the scheme was liberalized. There were two major reasons attributed to this lack of enthusiasm. First, there was a link between ordinary drawings and compensatory drawings; although the revised IMF scheme placed the compensatory financing facility outside the structure of ordinary drawings, it was nevertheless true that in practice a use of the CFS facility jeopardized the chances of getting future requests for ordinary drawings granted. Second, and more important, the developing countries strongly resented an increased IMF interference in their domestic economic management and decision-making processes.

After several meetings and discussions the C-20 released its *First Outline of Reform* in September 1973. By the time the C-20 completed its work in June 1974, the developments on the world economic scene had completely changed the background to the forum. The oil embargo and the initial oil price increases by the Arab nations had a traumatic effect on both developed and developing countries. This was accompanied by an acceleration of the inflation rate in the developed world. These changed circumstances warranted a review of the approach adopted to reform the international monetary system. Thus the *Outline of Reform* released by the C-20 included a series of "immediate steps" that would be taken to commence an evolutionary approach to reform and to help with the current problems faced by both developed and developing countries. The immediate impact of the report was the establishment of an Interim Committee of the Board of Governors on the International Monetary System.

During the period from October 1974 to January 1976, the Interim Committee and the Executive Board of the IMF were concerned mainly with: (a) the financing of massive balance of payments deficits; (b) an increase in IMF quotas; (c) the exchange rate regime; and (d) the treatment of gold. At the same time, the Executive Board was involved with the revision of the Articles of Agreement of the Fund.

A series of negotiations begun by the Interim Committee reached their final stage at a meeting held in Kingston, Jamaica, in January 1976. At this conference a wide range of issues including IMF quota increases, the exchange rate system, treatment of gold and a Trust Fund were discussed. Agreement on these matters was to provide the basis for the amendments to the Articles of Agreement.

Increase Real Resources Transfers

Even so, what was achieved at the Jamaica meeting cannot be underplayed. One achievement was the agreements reached on the increased access to conditional liquidity. These included establishment of the Extended Fund facility, renewal of the oil facility for a second (and final) year, liberalisation of the compensatory financing facility, an average increase in the size of quotas by 33.6 per cent and an agreement to increase temporarily (until quota increases become effective) the size of each credit tranche by 45 per cent. As for developing countries, which expressed their views as a bloc under the Group of Twenty four (G-24), the Jamaica agreement could not offer much. The main thrust of the arguments put forward by these countries was on the need to increase transfer of real resources. Developing countries primarily aimed at establishing a link between SDR creation and development. However, mainly because of US opposition this proposal was not accepted. Nevertheless, the increase in conditional liquidity and the establishment of the Trust Fund benefitted the developing countries in general.

The Executive Board completed its work on the amendments on March 24, 1976 and the Board of Governors (which had succeeded the Committee of Twenty) approved the amended Articles on April 30, 1976 after which they were presented to the members for their acceptance.

All in all, what has emerged after a long series of negotiations and deliberations is not exactly an international monetary "system" in so far as the term implies but a well defined and precise set of rights and obligations. Furthermore, in many important areas there was no agreement. For instance, on the rules for assigning adjustment responsibilities, the lack of which was one of the basic weaknesses of the Bretton Woods system. There was also no agreement on a design of a viable adjustment mechanism; and the meaning and content of "firm surveillance" was not adequately defined.

These failures are the result of a number of factors that were in operation during the period in which moves for reforms were in progress. The economies of the industrial and developing countries were in a state of turmoil. Inflation, oil price hikes, current account deficits and the breakdown of the par value system brought an unsettled state to the world economy during much of the period when this Amendment was being discussed. Furthermore, at the stage of negotiation the conflict of national interests often prevented unanimity in agreement on the issues discussed.

The main modifications to the existing system, brought about by the Amended Articles, can be summarised as follows:

(1) New Exchange Arrangements and Surveillance by the Fund.
(2) A reduction in the role of gold, including disposition of the Fund's own holdings of gold.
(3) Changes in the characteristics and expansion of the possible uses of the Special Drawing Right so as to assist it to become the principal reserve asset of the International Monetary System.
(4) Simplification and expansion of the types of the Fund's financial operations and transactions particularly those conducted through the General Department.
(5) The possible establishment of the Council as a new organ of the Fund.

(See pages 8 and 9 on Major Changes).

Perhaps the most important aspect of the Second Amendment was the provision of exchange arrangements. In the view of Joseph Gold, the General Counsel of the IMF's legal department, "in legalising freedom for members to choose their exchange arrangements, including floating, the second amendment represents a complete departure from the central feature of the original articles, namely the par value system. The emphasis in the new provisions are intended to bring about a shift to "orderly economic and financial conditions that will promote a stable system of exchange rates". In order to achieve such a stable system, however, members are subject to certain obligations in relation to their external and domestic policies and the Fund is required to maintain surveillance of the compliance of members with their obligations."

Quotas in the Fund With and Without Sixth Review Increases

Member (currency)	Before Sixth Review: Million SDRs	Before Sixth Review: Percent of total	After Sixth Review: Million SDRs	After Sixth Review: Percent of total
Afghanistan (afghani)	37	0.13	45	0.12
Algeria (dinar)	130	0.44	285	0.73
Argentina (peso)	440	1.51	535	1.37
Australia (dollar)	665	2.28	790	2.02
Austria (schilling)	270	0.93	330	0.84
Bahamas (dollar)	20	0.07	33	0.08
Bahrain (dinar)	10	0.03	20	0.05
Bangladesh (taka)	125	0.43	152	0.39
Barbados (dollar)	13	0.04	17	0.04
Belgium (franc)	650	2.23	890	2.28
Benin (franc)	13	0.04	16	0.04
Bolivia (peso)	37	0.13	45	0.12
Botswana (pula)	5	0.02	9	0.02
Brazil (cruzeiro)	440	1.51	665	1.70
Burma (kyat)	60	0.21	[illegible]	[illegible]
Burundi (franc)	23	[illegible]	[illegible]	[illegible]
Cameroon (franc)	35	[illegible]	45	[illegible]
[illegible]	35	[illegible]	[illegible]	[illegible]
Canada (dollar)	1,100	[illegible]	1,357	[illegible]
Central African Empire (franc)	13	[illegible]	16	[illegible]
Chad (franc)	13	[illegible]	16	[illegible]
Chile (peso)	158	0.54	217	[illegible]
China, Republic of (new Taiwan dollar)	550	1.88	550	[illegible]
Colombia (peso)	157	0.54	193	[illegible]
Comoros (franc)	[illegible]	0.01	[illegible]	[illegible]
Congo, People's Republic (franc)	13	[illegible]	[illegible]	0.04
Costa Rica (colón)	32	[illegible]	41	[illegible]
Cyprus (pound)	26	[illegible]	34	0.09
Denmark (krone)	260	[illegible]	310	0.79
Dominican Republic (peso)	43	0.15	55	[illegible]
Ecuador (sucre)	33	0.11	[illegible]	[illegible]
Egypt (pound)	188	[illegible]	228	[illegible]
El Salvador (colón)	35	[illegible]	43	[illegible]
Equatorial Guinea (ekuele)	10	[illegible]	13	0.03
Ethiopia (birr)	27	[illegible]	[illegible]	[illegible]
Fiji (dollar)	13	[illegible]	18	[illegible]
Finland (markka)	190	[illegible]	262	[illegible]
France (franc)	1,500	[illegible]	[illegible]	[illegible]
Gabon (franc)	15	[illegible]	[illegible]	[illegible]
Gambia, The (dalasi)	7	[illegible]	9	[illegible]
Germany, Federal Republic of (deutsche mark)	1,600	[illegible]	[illegible]	[illegible]
Ghana (cedi)	87	[illegible]	[illegible]	[illegible]
Guatemala (quetzal)	36	[illegible]	[illegible]	[illegible]
Grenada (East Caribbean dollar)	2	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Guinea-Bissau (peso)	[illegible]	0.01	[illegible]	[illegible]
Guyana (dollar)	20	[illegible]	[illegible]	[illegible]
Haiti (gourde)	[illegible]	[illegible]	[illegible]	[illegible]
Honduras (lempira)	25	[illegible]	[illegible]	[illegible]
Iceland (króna)	23	[illegible]	[illegible]	[illegible]
India (rupee)	940	[illegible]	1,145	[illegible]
Indonesia (rupiah)	[illegible]	[illegible]	480	[illegible]
Iran (rial)	[illegible]	[illegible]	[illegible]	[illegible]
Iraq (dinar)	[illegible]	[illegible]	[illegible]	[illegible]
Ireland (pound)	[illegible]	[illegible]	[illegible]	[illegible]
Israel (pound)	130	[illegible]	[illegible]	[illegible]
Italy (lira)	1,000	[illegible]	1,240	[illegible]
Ivory Coast (franc)	[illegible]	[illegible]	[illegible]	[illegible]
Jamaica (dollar)	[illegible]	[illegible]	[illegible]	[illegible]
Japan (yen)	1,200	[illegible]	[illegible]	[illegible]
Jordan (dinar)	23	[illegible]	[illegible]	[illegible]
Kenya (shilling)	[illegible]	[illegible]	[illegible]	[illegible]
Korea (won)	[illegible]	[illegible]	[illegible]	[illegible]
Kuwait (dinar)	[illegible]	[illegible]	[illegible]	[illegible]
Lao People's Dem. Rep. (kip)	13	[illegible]	[illegible]	[illegible]
Lebanon (pound)	9	[illegible]	12	[illegible]
Lesotho (rand)	5	[illegible]	[illegible]	[illegible]
Liberia (dollar)	[illegible]	[illegible]	[illegible]	[illegible]
Libya (dinar)	[illegible]	[illegible]	185	[illegible]
Luxembourg (franc)	[illegible]	[illegible]	[illegible]	[illegible]
Madagascar (franc)	[illegible]	[illegible]	[illegible]	[illegible]
Malawi (kwacha)	15	[illegible]	[illegible]	[illegible]
Malaysia (ringgit)	186	[illegible]	253	[illegible]
Maldives (rupee)	0.7	[illegible]	[illegible]	[illegible]
Mali (franc)	22	[illegible]	[illegible]	[illegible]
Malta (pound)	16	[illegible]	[illegible]	[illegible]
Mauritania (ouguiya)	13	[illegible]	[illegible]	[illegible]
Mauritius (rupee)	[illegible]	[illegible]	[illegible]	[illegible]
Mexico (peso)	[illegible]	[illegible]	[illegible]	[illegible]
Morocco (dirham)	[illegible]	[illegible]	150	[illegible]
Nepal (rupee)	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands (guilder)	700	[illegible]	948	[illegible]
New Zealand (dollar)	[illegible]	[illegible]	[illegible]	[illegible]
Nicaragua (córdoba)	[illegible]	[illegible]	[illegible]	[illegible]
Niger (franc)	13	[illegible]	[illegible]	[illegible]
Nigeria (naira)	[illegible]	[illegible]	[illegible]	[illegible]
Norway (krone)	[illegible]	[illegible]	[illegible]	[illegible]
Oman (rial Omani)	[illegible]	[illegible]	[illegible]	[illegible]
Pakistan (rupee)	[illegible]	[illegible]	[illegible]	[illegible]
Panama (balboa)	[illegible]	[illegible]	[illegible]	[illegible]
Papua New Guinea (kina)	[illegible]	[illegible]	[illegible]	[illegible]
Paraguay (guarani)	[illegible]	[illegible]	[illegible]	[illegible]
Peru (sol)	[illegible]	[illegible]	[illegible]	[illegible]
Philippines (peso)	[illegible]	[illegible]	210	[illegible]
Portugal (escudo)	[illegible]	[illegible]	[illegible]	[illegible]
Qatar (riyal)	[illegible]	[illegible]	[illegible]	[illegible]
Romania (leu)	[illegible]	[illegible]	[illegible]	[illegible]
Rwanda (franc)	19	[illegible]	[illegible]	[illegible]
São Tomé and Príncipe (dobra)	[illegible]	[illegible]	1.6	[illegible]
Saudi Arabia (riyal)	[illegible]	[illegible]	600	[illegible]
Senegal (franc)	[illegible]	[illegible]	[illegible]	[illegible]
Seychelles (rupee)	[illegible]	[illegible]	1	[illegible]
Sierra Leone (leone)	[illegible]	[illegible]	[illegible]	[illegible]
Singapore (dollar)	[illegible]	[illegible]	[illegible]	[illegible]
Somalia (shilling)	[illegible]	[illegible]	[illegible]	[illegible]
South Africa (rand)	[illegible]	[illegible]	[illegible]	[illegible]
Spain (peseta)	[illegible]	[illegible]	[illegible]	[illegible]
Sri Lanka (rupee)	98	[illegible]	119	[illegible]
Sudan (pound)	[illegible]	[illegible]	[illegible]	[illegible]
Swaziland (lilangeni)	8	[illegible]	[illegible]	[illegible]
Sweden (krona)	[illegible]	[illegible]	[illegible]	[illegible]
Syrian Arab Republic (pound)	[illegible]	[illegible]	[illegible]	[illegible]
Tanzania (shilling)	[illegible]	[illegible]	[illegible]	[illegible]
Thailand (baht)	[illegible]	[illegible]	[illegible]	[illegible]
Togo (franc)	15	[illegible]	[illegible]	[illegible]
Trinidad and Tobago (dollar)	[illegible]	[illegible]	[illegible]	[illegible]
Tunisia (dinar)	[illegible]	[illegible]	[illegible]	[illegible]
Turkey (lira)	[illegible]	[illegible]	[illegible]	[illegible]
Uganda (shilling)	[illegible]	[illegible]	[illegible]	[illegible]
United Arab Emirates (dirham)	[illegible]	[illegible]	120	[illegible]
United Kingdom (pound)	2,800	[illegible]	[illegible]	[illegible]
United States (dollar)	6,700	22.93	8,405	21.53
Upper Volta (franc)	[illegible]	[illegible]	[illegible]	[illegible]
Uruguay (peso)	[illegible]	[illegible]	[illegible]	[illegible]
Venezuela (bolivar)	[illegible]	[illegible]	[illegible]	[illegible]
Viet Nam (dong)	[illegible]	[illegible]	90	[illegible]
Western Samoa (tala)	[illegible]	[illegible]	[illegible]	[illegible]
Yemen Arab Republic (rial)	[illegible]	[illegible]	[illegible]	[illegible]
Yemen, People's Dem. Rep. (dinar)	[illegible]	[illegible]	[illegible]	[illegible]
Yugoslavia (dinar)	[illegible]	[illegible]	[illegible]	[illegible]
Zaïre (zaïre)	[illegible]	[illegible]	[illegible]	[illegible]
Zambia (kwacha)	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	100.00	[illegible]	[illegible]

[illegible]

[illegible]

IMF quota increases under the Sixth General Review were consented to on March 31, this year, by members who together held over 75 per cent of total Fund quotas. The above table reveals the position of the quotas in the Fund, with and without Sixth Review increases. Sri Lanka had 98 million SDR's or 0.34 per cent of the Fund's total without quota increases; while after the increase it went upto 119 million SDRs or 0.30 per cent of the total quotas. The U.S.A., the largest quota holder, had 6,700 million SDRs or 22.93 per cent of the total without the increases and 8,405 million SDRs or 21.53 per cent of the total after the Sixth Review increases.

The role of the Fund as the centre for collaboration on international monetary problems does not depend on the nature of the exchange system. In most respects, its responsibility is greater with floating exchange rates than with par values. The second amendment states that the Fund shall oversee the international monetary system in order to ensure its effective operation and the compliance of members with their obligations of exchange policies. This is a mandate to the Fund to play a more active role than it did under the system of par values.

Senior Fund officials commenting on the significant changes at a Press Conference, shortly before the Second Amendment entered into force, emphasised that "it was now possible for a virtually full range of free choices for members as to the exchange system they would adopt. But it also gives the Fund powers of surveillance over the conduct of exchange rate policies by members. So for the first time in some years now, it puts us in a position to declare the arrangements of all members fully consistent with the Articles of Agreement of the Fund and enjoins us to exercise firm surveillance over their conduct in applying those arrangements and gives us additional powers.

It is useful to note that one of the powers of the Fund, over time, will be to make recommendations with respect to general exchange arrangements. Therefore, although new exchange arrangements cannot be imposed on members, and they always will have freedom of choice — even if in future a par value system were restored under the new Articles — the Fund can make recommendations for general exchange arrangements. Because a very high proportion of voting power is necessary for those decisions, the likelihood is that much of the membership of the Fund would switch to exchange arrangements of that kind. The understanding of what one means by "general exchange arrangements" is, of course, flexible; there is no precise formulation in the Articles. This technique is, in a way, typical of much of the new Articles. The spirit of the Articles will change from a rather rigid code, full of formulae, full of closely defined obligations, to a set of what has been called "enabling powers". As a result although one might not be able to point to an immediate and striking change the next day, on April 2nd, that will make headlines, over time there are adequate and quite important powers to modify the international monetary system and to bring about changes, incidentally, without further amendment. That is indeed a big change in the spirit of the Fund and its possibilities for the future. Amendment is no easy task. This one has taken, in all, some five or six years to bring about.

The Fund adopted, almost a year ago, the rules for surveillance that came into effect next week."

Sri Lanka and the Amendments

The second Amendment to the Fund's Articles of Agreement entered into force following its acceptance by 60 per cent of the Fund's members representing 80 per cent of the total voting power. As stated at the outset, the amended Articles went into force for all 133 members of the Fund. This means that each member is required to discharge obligations that arise from the amended Articles even if the member had not accepted them. This may not be possible for some members under their existing laws. It was for this reason that the National State Assembly passed the Bretton Woods Agreements (Special Provisions) Law, No. 10 of 1978. The legislation enables the Sri Lanka Government to accept and to carry out and discharge all the obligations which would follow the enforcement of the Second Amendment.

This law has made provisions by way of amendments to the Bretton Woods Agreements Act No. 20 of 1950, which enabled Sri Lanka to become a member of the Fund, and to the Monetary Law Act of 1949. The main amendments effected to these two Acts are summarised below.

(i) Section 3 of the Bretton Woods Act as amended by Section of the Bretton Woods Agreement (Special Provisions) Law, No. 10 of 1978 enables Sri Lanka to pay its subscription to the Fund, in accordance with the provisions of Section 3 and 4 of Article III of the Fund Agreement, in Sri Lanka currency, or Special Drawing Rights or such other currency as may be specified by the Fund. According to the previous Articles, 25 per cent of the quota of a member had to be spent in gold except under special circumstances.

(ii) Section 6 of the Amended Law introduces a new section 8B to the Bretton Woods Act. This new section requires Sri Lanka to ensure that the balances of Sri Lanka rupees purchased from the IMF by another member can be exchanged at the time of purchase

(Continued on page 14)

The Second Amendment Brings Major Changes in Practices of the Fund

— the IMF Viewpoint

(a) Exchange Arrangements and Surveillance by the Fund

Members undertake a general obligation to collaborate with the Fund and with other members in order to assure orderly exchange arrangements and to promote a stable system of exchange rates. Members must perform this obligation by observing certain undertakings of a general nature with respect to domestic and external economic and financial policies. These undertakings require each member to endeavour to direct its economic and financial policies toward the objective of fostering orderly economic growth with reasonable price stability, with due regard to its circumstances. Each member is required to seek to promote stability by fostering orderly underlying economic and financial conditions and a monetary system that does not tend to produce erratic disruptions; each member must avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members. Members must follow exchange policies compatible with these undertakings. Although the obligations are general in scope, the differing circumstances, needs, and problems of members will be recognised.

The general obligation and specific undertakings apply to all members at all times. Members are free to apply the exchange arrangements of their choice, except that they may not maintain a value for their currencies in terms of gold. They are required to notify the Fund of the exchange arrangements they intend to apply and of any subsequent changes in those arrangements. The Fund is required to oversee the international monetary system in order to ensure its effective operation and to oversee the observance by each member of its obligations. Members are required to provide the Fund with the information necessary for surveillance, and when requested by the Fund, shall consult with it on their exchange rate policies. In essence, the amendments give members freedom of choice in their exchange arrangements, but not freedom of behaviour, in the sense that all members are bound by certain obligations and subject to surveillance by the Fund.

(b) A Reduction in the Role of Gold in the International Monetary System

The most important changes in this respect are as follows: (i) the function of gold as the unit of value of the SDR has been eliminated and gold could not again become a common denominator for par values of currencies even if at some future time par values were introduced; (ii) the official price of gold has been abolished and members will be free to deal in gold in the market and among themselves without reference to any official price; (iii) obligatory payments in gold by members to the Fund and by the Fund to members have been abrogated, and the Fund will be able to accept gold only under decisions taken with a high majority of the total voting power; (iv) the Fund will be required to complete the announced program of disposing of a total of 50 million ounces of gold, and will have powers to make further gold sales both on the basis of prices in the market and at the official price in effect before the Second Amendment (SDR 35 per ounce); (v) profits beyond the former official price on any such further sales of gold will be placed in a Special Disbursement Account for use in the ordinary operations and transactions of the Fund or for other uses, including balance of payments assistance for the benefit of developing members in difficult circumstances; (vi) the Fund, in its decisions on gold, will be required to avoid the management of the price, or the establishment of a fixed price, in the gold market, and (vii) members will undertake to collaborate with the Fund and with other members in order to ensure that their policies with respect to reserve assets will be consistent with the objectives of promoting better international surveillance of international liquidity and of making the SDR the principal reserve asset in the international monetary system.

(c) Changes in the Characteristics and Expansion of the possible uses of the SDR

The modifications in the provisions relating to the SDR are intended to contribute to the attainment of the objective of making the SDR the principal reserve asset in the international monetary system. Under the amended Articles (i) the method of valuing the SDR may be determined by the Fund by high majorities; (ii) participants are able to enter into transactions by agreement without the necessity for general or special decisions by the Fund, and transfers of SDRs in such transactions are not subject to the requirement of need to use reserve assets; (iii) the Fund may, subject to appropriate safeguards, authorize operations involving SDRs between participants that are not otherwise provided for by the Articles; (iv) the Fund may broaden the categories of other holders of SDRs, although not beyond official entities, and the operations and transactions in which they may engage; (v) the Fund may review the rules for reconstitution of participants' holdings of SDRs at any time and may adopt, modify, or abrogate the rules by a lower majority of the total voting power than has been necessary in the past; (vi) the SDR replaces gold in certain payments by members to the Fund and by the Fund to members, and its possible use in operations and transactions conducted through the Fund's General Department (formerly the General Account) will be expanded, and (vii) the value of the currencies held in the General Resources Account of the General Department must be maintained in terms of the SDR in accordance with exchange rates determined for the purpose of transactions in SDRs.

(d) Simplification and Expansion of the types of the Fund's Financial Operations and Transactions

The Fund's holdings of the currencies of all members will be usable by the Fund in its operations and transactions in accordance with its policies. For use of the Fund's general resources, which is no longer provided for in terms of a particular currency needed for making payments in that currency, the Fund will select the currencies to be sold on the basis of policies that take into account the balance of payments and reserve position of members and developments in the exchange markets. This change in the Articles is in accordance with established Fund practice, but the "operational budgets" established on the basis of these policies will now have an express legal basis comparable to the legal basis of the designation plans in accordance with which participants are designated by the Fund to accept transfers of SDRs at the request of a participant. Members purchasing other members' currencies from the Fund can be certain that they will be able to use them, directly or indirectly, to meet their balance of payments needs because of the assurance that the currencies are either freely usable or will be exchanged by the issuing members for such currencies.

The Fund's policy on repurchase, i.e., the repayment of credit transactions, which is designed to ensure that the use of the general resources will not extend beyond three to five years unless a longer period is permitted under a special policy on use, has been incorporated in the Articles. The detailed formulas of the original Articles on repurchase and on the calculation of monetary reserves that governed the accrual of repurchase obligations and the determination of the media of payment have been deleted from the Articles. There is, however, a new provision under which a member is expected to repurchase in the light of improvement in its balance of payments and reserve position even before the fixed date for completing repurchase.

The Fund will be able to provide a participant with the currencies of other members in return for SDRs or with SDRs in return for the currencies of other members.

The Fund will have more extensive authority to permit members to engage in transactions under special policies, for example, the Fund's buffer stock facility, without at the same time foregoing their reserve tranche positions (formerly called gold tranche positions), which they regard as reserve assets.

Source: *IMF PRESS RELEASE.*

The Bretton Woods Agreements (Special Provisions) Bill

Debate in the National State Assembly

The Bretton Woods Agreements (Special Provisions) Bill was presented in the National State Assembly and was passed after debate in the first week of April. It was a bill *"to make such legal provisions as may be necessary by way of amendment of the Bretton Woods Agreements Act and the Monetary Law Act in order to give force and effect to the decision of the Government of Sri Lanka to accept further amendments to the Articles of Agreement of the International Monetary Fund of which Sri Lanka is a member".*

We reproduce below from Hansard excerpts of the official view as given by the Minister of Finance and Planning Mr. Ronnie de Mel and the opposition view as given by Mr. M. Sivasithamparam M.P. for Nallur.

THE GOVERNMENT VIEW

Mr. R. J. G. de Mel :

This is a Bill to make such legal provision as may be necessary by way of amendment of the Bretton Woods Agreements Act and the Monetary Law Act in order to give force and effect to the decision of the Government of Sri Lanka to accept further amendments to the Articles of Agreement of the International Monetary Fund of which Sri Lanka is a member.

These are amendments to the Articles of Agreement of the International Monetary Fund which all members of the fund will subscribe to in order to continue the International Monetary Fund as an international financial and monetary institution in the world. One hundred and thirty one countries who are members of the International Monetary Fund have already accepted these amendments to the Articles of Agreement of the International Monetary Fund, and the Government of Sri Lanka being one of the members has accepted these amendments. I now introduce this Bill to make legal provision for the Government to accept these amendments to the Articles of Agreement.

The Bretton Woods Agreement, as you are aware, was the foundation of the international monetary and financial system which took effect after the Second World War, in 1945. Sri Lanka along with 131 other countries are signatories to this Agreement. This Agreement came into existence in 1945 when 45 countries originally signed the Agreement at Bretton Woods. This Agreement also set up the International Monetary Fund as a permanent institution to enforce the Agreement. The main purpose of the Agreement was to ensure stability in the international monetary and financial system thereby increasing trade among members which in turn would promote income and employment creation within countries. Sri Lanka became a member of the Fund by accepting the Agreement in 1950. Today there are 131 members of the International Monetary Fund, including socialist countries like Yugoslavia, Vietnam and Romania.

This system based on Bretton Woods lasted for over 25 years. The first cracks in the system began to appear about ten years ago. The reform of the international monetary system has become an urgent necessity for the past seven years or so due to the cracks that have appeared in the system. The need arose principally from the fact that the Bretton Woods system which guided international economic and financial relationships since 1945 was found to be too rigid and inflexible in the face of rapidly changing circumstances in the world economy. Manifestations of this shortcoming were the periodic gold crises in the latter 1960s and up to 1971, and the instability of exchange arrangements particularly among developed countries. Although each individual crisis was met with some ad hoc arrangements or other, the breaking point for this system of financial relationships came in August 1971, when the United States suspended convertibility of the dollar into gold. It signified formally the collapse of the Bretton Woods System as we know it from 1945.

Since then, under the auspices of the I.M.F. which is entrusted with the responsibility for the proper functioning of the International Monetary System, an effort at the reform of the International Monetary System has been under way. The oil price rise of 1973, which occurred before the reform effort had a chance to bear fruit, had the effect of reordering the priorities in the reform exercise as well as underlining the urgency for reform. The culmination of this process is the document entitled "The Second Amendment to the Articles of Agreement of the International Monetary Fund", the text of which I am tabling. This is a text which had already been accepted by 131 countries, all members of the I.M.F.

These amendments are not a total revision of the existing Articles of Agreement of the I.M.F. which Sri Lanka has already accepted way back in 1950 when she subscribed to membership in the I.M.F. In this sense it does not constitute a new International Treaty. But as the revisions are fairly extensive and affect a number of provisions, a complete set of Articles is submitted for approval by member countries.

The principal modifications to the Articles relate to four aspects. These are — firstly, exchange arrangements among member countries; secondly reduction in the role of Gold in the International Monetary System; thirdly, simplification and modernisation of operations and transactions through the General Resources Department of the I.M.F.; and fourthly, improvements in the characteristics and usability of the Special Drawing Right.

The amended Articles legalise the existing de facto situation of floating exchange rates by enabling the country to declare to the Fund any exchange arrangement of its choice with the exception of a par value expressed in terms of Gold. Within a broad commitment to assure orderly exchange arrangements, member countries are obliged to direct their economic and financial policies towards the objective of fostering orderly economic growth with reasonable price stability and with due regard to circumstances. The Fund for its part is empowered to exercise surveillance over exchange rate policies of members — this is a function which the Fund has performed for the last 30 years — but in evolving and applying the principles, the Fund is required to respect the domestic social and political policies of members.

This is an amendment which countries like Sri Lanka insisted on. This is something which did not exist in the earlier arrangement. The Fund has now been compelled to take into account the domestic social and political policies of all its members. If international economic conditions so permit, there is provision to permit the re-establishment of exchange arrangements based on stable but adjustable par value.

The amended Articles terminate the official role of Gold in the International Monetary System and establish the Special Drawing Right as the corner-stone of the System; the value of the SDR in terms of Gold has been eliminated; instead the Fund is empowered to determine its basis of valuation. Currently this is related to 16 principal currencies. There will no longer be any obligatory payments in Gold by members of the Fund as for instance when subscription to quota increases or in paying interest and other charges.

The amended Articles also authorise the I.M.F. to dispose of one-third of its Gold stock amounting to 50 million ounces. Profits from the sale of half this amount are earmarked for distribution among low income developing countries for Balance of Payments assistance on very concessional terms. This is through what is known as the Trust Fund. The Trust Fund did not exist under the old IMF. This is a special fund created from the sales of gold to help the low-income developing countries like Sri Lanka. This is also an added advantage in the present Articles when compared with the earlier Articles which did not take into account the needs and aspirations of low-income developing countries at all. There is also provision to empower the Fund to dispose off the remainder of its gold stock in a manner it deems appropriate.

Towards the objective of making the SDR the principal reserve asset of the International monetary system, the characteristics of the SDR have been broadened and its usability made more flexible. It is proposed to give greater freedom to members to engage in transactions in SDRs by agreement among themselves. Unlike under the present Articles when a member using Special Drawing Rights, is expected to prove the balance of payments need, this expectation is withdrawn in respect of transactions by agreement between members. This also is a concession to the poor developing countries. Further, the use of SDRs in the Funds operations and transactions will be extended, for example, through substitution of SDRs for gold in respect of that part of the quota subscriptions hitherto payable for countries like Sri Lanka which had hitherto to pay its subscription in gold. Now it can pay the subscription in SDRs or in their own local currency. There will also be greater scope for official entities in other than Central Monetary Authorities to hold and use SDRs and they will be able to engage in a somewhat broader range of transactions than at present.

The main improvement in provisions governing the General Resources Account of the Fund, relates to the usability of the Fund's holdings of currencies in that account. Under the amendments, all member's currencies will be usable in operations and transactions of the Fund. But before the Fund decides on which currency to include, the particular members' balance of payments and reserves position and developments in the exchange markets are taken into account. The amended Articles also provide for assistance from the Fund to be obtained for a larger variety of reasons. This too helps countries like Sri Lanka. While at present such assistance depends on the balance of payments need, under the ameded Articles, there is provision to obtain temporary assistance on grounds of not only Balance of Payments needs but also due to developments in Reserves or expected unfavourable developments in Reserves.

Therefore, there are several advantages to Sri Lanka in accepting the amended Articles which have already been accepted by 131 countries who are members of the IMF.

(1) Sri Lanka can pay that portion of any increase in its quota in SDRs of currencies of another member instead of in gold as in the old system. There is even a possibility for the whole amount to be paid in Sri Lanka rupees if the Fund so decides.

This is a tremendous advantage as against the old Articles which stipulate that the contribution of the subscription be paid in gold.

(2) Sri Lanka has considerable flexibility in determining its exchange rate system.

Under the old agreement every change in our exchange rate system had to be approved by the IMF and there was no flexibility at all. There is real flexibility allowed under the present Articles of Agreement.

(3) The IMF will respect the domestic, social and political policies when reviewing the exchange system.

Under the old Articles of Agreement the IMF took no account of the domestic or internal, social and political policies of a country. In future the IMF has to take account of the domestic needs and aspirations of each country.

(4) Sri Lanka can seek Fund assistance not merely on grounds of balance of payments or reserves position, but also due to anticipated developments in its reserves; as for instance, due to a bunching of import payments.

(5) Under present rules, assistance from the IMF under its regular and other facilities has to be settled within 5 years. The amended Articles permit an extension of this limit for settlement of dues for all countries if conditions so warrant.

This is a great advantage to a country like Sri Lanka in re-paying dues to the IMF.

There is also provision for individual countries to obtain an extension of the maturity period if it is subjected to particularly difficult circumstances. This, too, helps countries like Sri Lanka.

(6) Subscribing to the amended Articles and continued membership in the Fund would qualify Sri Lanka to obtain concessional assistance from the Fund. While the monies in the existing Trust Fund

are distributable among eligible members who were members on 31.08.75 like Sri Lanka, there are possibilities for additional such funds to be channelled to needy members as concessional aid on the sale of the balance gold left with the IMF.

The proposed Special Disbursement Account can make this possibility operational.

I might tell you, Sir, that apart from standby support which the IMF has given us and the Trust Fund support from the sales of gold, we have also been assured of considerable support from what is known as the Extended Fund Facility and from the Supplementary Fund facility which is also known as the Witteveen facility.

Therefore, the amended Articles are a great improvement on the original Articles to which we have been subscribing for the last 30 years and it is because it is a great improvement that we are subscribing to these amended Articles along with 131 other members of the IMF, including socialist countries like Vietnam, Yugoslavia and Rumania.

While there are advantages of specific interest to Sri Lanka what is of broader significance is that the IMF, once termed the rich man's club or the rich nations' club, is now steadily turning its attention to the pressing problems of poorer countries. In fact all the recent decisions which increased the variety of assistance from the IMF, the Oil facility, the Extended Fund facility and the proposed Witteveen facility, are all meant to assist poorer countries like Sri Lanka.

The amended Articles become law for all members when three-fourths of the members with four-fifths of voting power have passed the necessary legislation to accept the amended Articles in their own countries. This point is expected to be reached any moment now. Also Sri Lanka, on the basis of the 6th quota review in the IMF, is entitled, to a higher quota of SDR 119 million than the current quota of SDR 98 million. To this extent, therefore, the amount of assistance that Sri Lanka can obtain, from the IMF will also proportionately increase. The proposed new quota will apply to Sri Lanka only after Sri Lanka subscribes to the second Amendment, and it is therefore essential that Sri Lanka subscribes to the second Amendment immediately.

Then, Sir, as regards the urgency of this Bill, I would like to add that the necessary legislation or not; it is binding on all members of the IMF, all 131 of them, irrespective of whether individual members pass the necessary legislation or not. It is binding on us when 89 members with 80 per cent voting power accept the amendments. This stage will be reached any moment now. If Sri Lanka has not passed the necessary legislation to accept the amended Articles within 30 days of the amended Articles becoming law in the IMF, Sri Lanka will not be eligible for the higher quota of SDR 119 million as against the present quota of SDR 98 million. The higher the quota, the higher the maximum of assistance which a country can get from the IMF. This was the reason for the urgency of the Bill.

THE OPPOSITION VIEW

Mr. M. Sivasithamparam:

Undoubtedly the Hon. Minister of Finance has told us that the new Articles were the product of the Committee of Twenty which had sat since 1972 and sat almost continuously for three years and brought the necessary amendments. I only want to look back a little and say that thirty years ago when the first Agreement was signed one of the aims declared by the Fund was that the thought that expansion would balance growth of international trade and this would make a contribution to the promotion of high levels of employment and real income, to the development of the production resources of all members. That was one of the solemn objectives of the Fund when the Fund was started 30 years ago. Over the last 30 years it is the sad experience of the developing countries that their rate of growth has been sluggish or slow and the International Monetary Fund contributed nothing to their growth. Furthermore, their share in the world trade decreased while the share in the world trade of the developed countries increased. That was the experience over the last 30 years of all developing countries.

As a result of membership of the Fund, when the United States took drastic steps in August 1971, the effect of those steps was felt by almost every developing country, more so by countries which had direct trade agreements and so on with the United States. Certainly it was felt by most countries.

The experience of the last 30 years has shown us that the I.M.F. has certainly not contributed to the economic growth of developing countries, and certainly our share in the world trade has not increased as a result of this international monetary system.

The Hon. Minister of Finance seems to think that the amended rules are a little better than what the earlier rules were. Undoubtedly, there are certain improvements of course improvements, which, if I may say so, were not calculated to help the developing countries but were brought because of the change of circumstances in the developed countries, for instance, the going away from the gold standard. In 1945 the United States insisted on the gold standard because it had all the gold. Practically the entire gold of the world had gone into U.S. hands and they were anxious that they should have some control over countries which during the war were managing their economics on a managed basis and therefore they insisted on the gold standard.

At the time they insisted on the gold standard, the Dollar was almighty. It was one currency in the world which commanded respect throughout the world. Today the situation has changed. The U.S. is holding the gold reserve for different reasons. Currencies like the Yen and the Mark have become stronger than even the Dollar. Therefore, the relaxation of these rules is not so much a result of their interest in us, the developing countries, but rather as a result of changed circumstances in world trade and so on that have taken place in developed countries.

But, of course, to our advantage I must say that the going away from the gold standard is certainly an advantage to the developing countries and to that extent we certainly welcome the new rules of the Agreements that have been framed. But the Hon. Minister of Finance will appreciate that one of the difficulties that we, a developing country, faces, is to find a market for our goods. That is the principal concern of any developing country, whether we can find a market for our goods at the best possible price. Unfortunately there are no solutions that these Agreements offer to that problem, while, undoubtedly, during the deliberations of this committee there have been pious hopes expressed that developing countries should have a market for their goods and so on.

Our second problem is to find capital for development. Undoubtedly there are some new rules about the tie-up or link between aid and the SDRs. This is certainly a new development as far as the new agreement is concerned, but it is not sufficient — the Hon. Minister of Finance will agree — to find the capital resources that all developing countries would require for their development.

The third problem that developing countries have had to face is the rise in the prices of petrol and other energy-producing commodities. That too was considered by the Committee of Twenty when they went into this question. They thought of ways and means of cushioning the difficulties the developing countries will naturally have to face as a result of the rise in the prices of petrol and other energy-producing commodities, but unfortunately they have not chosen to meet the situation and to find any remedy for the problems that have arisen.

So there are two or three main problems that are facing the developing countries for which no solution is available in the new agreement of the new rules that have been framed under the International Monetary Fund or other funds. Therefore, our problems are still there and a solution to those problems does not lie within the framework of the International Monetary Fund's donations or allocations even under the new rules. We must be alive to that situation.

There is a sort of a complacency that is spreading among all concerned that we can get all the money we need to finance our development projects from the International Monetary Fund or the World Bank. We speak very glibly of these matters. We say that, if we are on the good side of the I.M.F. and the World Bank, all the resources that we need for the development of our country are just there for us to take and use. That situation is not there. Under the new rules or under any rules that situation is not there.

The other question we have always raised is that the I.M.F. imposes conditions which are not in keeping with the social and political aspirations of the recipient countries. That is one of the matters that we generally raised against the I.M.F. We have examples of this. One cannot run away from the fact that the I.M.F. is politically motivated and the United States still controls the decisions of the I.M.F., because it controls, even today, 22 per cent of the votes of the I.M.F. One of the classic examples that the I.M.F. was politically motivated occurred during the Suez crisis. During the Suez crisis England and France had almost invaded Port Said and the Suez Canal area and England wanted accommodation from the IMF in a fairly large sum of money, but the United States which was at that time on the side of Egypt, refused to give accommodation to England. At that time politically we may not have agreed with England but the point is that even England was refused accommodation that they so badly needed from the I.M.F., because of political reasons.

Since then as far as our country is concerned we have had the experience of the I.M.F. asking for conditions which are not in keeping with our social aspirations. That has been seen over and over again. Their point of view as to how social objectives should be reached is different from our ideas of how our social objectives should be reached. Therefore, as far as that question is concerned, their attitude towards certain social problems that we face has not changed although there is a change of rules. Of course, there are provisions that the Fund shall take into consideration the political, social and economic conditions of the recipient countries. All these pious hopes are there but when it comes to their actual translation one finds that they follow the same old method as far as the developing countries are concerned.

Mr. Speaker, while we well appreciate the necessity for this Bill, we only wish to strike a note of warning that we should not think that the leopard has changed its spots, that the IMF has suddenly become a benevolent association to work for developing countries; may be that some of the spots are not as clear as they used to be but still we must be careful in dealing with the leopard.

The Minister of Finance Mr. Ronnie de Mel replying in the debate on the "Bretton Woods Agreements" Bill made the following concluding remarks:

"I agree with my hon. Friend (the Member for Nallur Mr. M. Sivasithamparam) that in the last resort, as Chairman Mao Tse-Tung said, we must rely on our own efforts. In the last resort, nobody will help us to put our house in order. We may get help from time to time for balance of payments support for some of our development schemes like the Mahaweli, but in the last resort it is only the people of this country who can help themselves to better their own lot.

There are one or two other matters mentioned by my hon. Friend to which I must refer. First, about the voting strength of the I.M.F. The voting strength in the I.M.F. is no longer what it used to be in the 40s or in the 50s or in the early 60s when previous Governments both U.N.P. and S.L.F.P., were members. The present voting strength is as follows:

The United States of America, which has the largest quota, the largest subscription, controls only 19.8 per cent of the votes today. The developing countries not only have a veto power over the most important decisions of the I.M.F. but they have a combined voting strength of 35 per cent — almost double the voting strength of the U.S.A. So, the U.S.A. by itself can no longer dominate the I.M.F. Those days are over. So we need not fear that the I.M.F. is a stooge organisation of the U.S.A. or a rich man's club any more. More and more account is taken of the needs of the poorer countries.

Then my hon. Friend referred to the oil price increase. I must say in fairness to the I.M.F. that the I.M.F. was one of the first institutions to respond to the acute difficulties faced by developing countries like Sri Lanka caused by the oil price increase. They instituted a special facility, which they called the Oil Facility, in 1974 to help countries like Sri Lanka whose balance of payments had been completely upset by the oil price increase. Sri Lanka has already received nearly 80 million S.D.Rs. That is about Rs. 1,600 million.

So we must accept the position that the IMF is taking more and more into account the difficulties of the poorer countries like ours.

(Continued from Page 8)

for a freely usable currency selected by Sri Lanka. According to the definition adopted by the Fund a currency may be treated as freely usable if (a) the currency is widely used to settle international transactions; (b) it is widely traded in principal exchange markets.

(iii) Section 8 of the Bretton Woods Agreement (Special Provisions) Law is a substitution for the Section 3 of the Monetary Law Act. Under Section 3 of the Monetary Law Act the par value of the Sri Lanka rupee is expressed in terms of gold in keeping with the original Articles of the Fund. With the termination of the role of gold as the common denominator of the international monetary system, under the Amended Articles the expression of the par value in terms of gold is no longer possible. Furthermore, under the amended Articles the maintenance of a par value system is also terminated. When the Fund determines, by an 85 per cent majority of the total voting power, on the adjustable par values, they can be expressed only in terms of either Special Drawing Rights or such other common denominator prescribed by the Fund. The common denominator will, however, not be gold or currency.

Accordingly the amendment effected in Section 3 of the Monetary Law Act empowers the Monetary Board to make a recommendation, by unanimous decision, to the Minister of Finance to desist from declaring a par value at present. However, provision is made to enable the Monetary Board to recommend to the Minister of Finance to restore the par value of the Sri Lanka rupee in accordance with the amended Articles of Agreement of the Fund.

Under the original Articles of Agreement, a change in par value was permitted only to correct a "fundamental disequilibrium" in the balance of payments of the member country; and each member was expected to maintain orderly exchange arrangements. This obligation was built into the Monetary Law Act. In terms of Section 65 of the Monetary Law Act "the Monetary Board should endeavour to maintain par value of the Ceylon rupee". As the par value system is inoperative at present under the amended Articles, Section 65 of the Monetary Law Act is now repealed and substituted with a new section which states that the Monetary Board shall maintain exchange arrangements which are consistent with the underlying trends in the country. This section provides some degree of flexibility with regard to the choice of exchange arrangements by the monetary authorities.

The other amendments to the Bretton Woods Act and Monetary Law Act constitute the substitution of the term Special Drawing Right for the term gold as the common denominator of the international monetary system.

The amendments also enable Sri Lanka to legalise the current exchange practices which were not consistent with either the original Articles of the Fund or the Monetary Law Act of Sri Lanka. Now Sri Lanka is free to apply an exchange arrangement of her own choice; and in the event the Fund decides that the international economic conditions are conducive to the maintenance of a system of stable but adjustable par values, Sri Lanka can opt for the introduction of a par value for the

IMF Director's Views on Welfare, Savings, Consumption

Interview

Witteveen: I think there should be a balance between welfare measures on the one hand and measures on the other hand to increase savings so that development can take place. It is I think too short sighted to increase welfare measures to such an extent that there is no savings so that consumption cannot be increased.

In every country a choice has to be made between present consumption and future consumption. That is really the point. Therefore, I think some balance is needed. Welfare measures are possible as far as they can be paid out of taxation. Taxation can be heavier on higher incomes, so that there is a possibility to increase welfare of the lower income classes without an unfavourable effect on development.

But of course, the hope for this is limited. To go beyond that would damage development and would be unfavourable for consumption in the future. So I think it is important because the Government is moving in that direction, to stimulate the people to save more by attractive rates of interest; that is, the possibilities to save, through Savings Banks and so on.

SLBC: Why has the International Monetary Fund decided to establish a permanent representative in this country and what would be his functions?

Witteveen: Well we have these resident representatives in a number of countries where we have rather close co-operation. This is of course on the request of the government of Sri Lanka in order to assist in the working out of these policies. This is such an important shift in policies and many points present themselves, and therefore we are ready to provide this assistance.

SLBC: Finally, your Excellency, are Special Drawing Rights on the way to becoming an international currency in their own right and if so how?

Witteveen: Well they are already an international currency. As I explained, every member government of the IMF has been provided with a certain amount of Special Drawing Rights and they can be used to make international payments, so it is international money. The demand is still rather relatively a very small part of the total of international liquidity. We have agreed in the amendments to our Articles of Agreement that the Special Drawing Rights should become in the future the principal reserve asset, the principal international money. So we have to work for that in the coming years.

The final part of a radio interview conducted by the SLBC's Dayananda de Silva with IMF Managing Director, Johannes Witteveen in Colombo in February, 1978.

rupee. Moreover, when a par value system is introduced under the amended Articles, Sri Lanka can fix margins for spot exchange transactions with other currencies upto 4½ percent on either side of parity, as compared with the 1 per cent margin allowed under the previous Articles.

Another advantage in subscribing to the amended Articles is the access to the drawing facilities which are liberalised under the amended Articles. The balance of payments assistance is now extended even when a member experiences an unfavourable development in her reserve position. Further, the amended Articles have simplified the repurchase obligations of the members.

As a developing country, Sri Lanka has become eligible for assistance under distribution of profits from the gold sales conducted by Fund. These resources are held in the Trust Fund administered by the IMF, and are made available to a limited number of developing countries with low per capita income.

As a consequence of the acceptance of the amended Articles Sri Lanka is also required to fulfil certain obligations. Under the amended Articles members are obliged to inform the Fund of their current exchange arrangements and also any changes as and when introduced. Further, Sri Lanka is now expected to ensure that the balances of Sri Lanka rupees purchased by another member from the Fund are convertible into a freely usable currency. Although this is a legal requirement under the new Articles, it seems unlikely that Sri Lanka will face this obligation in the near future as her balance of payments and reserve position are yet not strong enough to reach this stage.

Further implications of this Amendment were listed in a speech by the Minister of Finance, Mr. Ronnie de Mel in the National State Assembly when the Second Amendment was debated; while, possible negative effects were highlighted by Mr. M. Sivasithamparam on behalf of the Opposition (See pages 10—13).

The IMF in the popular mind is an institution that not merely influences operation of the international monetary system but equally important is regarded as an institution that comes to the aid of countries in great financial straits. What appears to have damaged its reputation, however, is the notion that the IMF sets rigid economic conditions for granting of loans with underlying political implications.

The developing nations particularly have been pushing for years for the IMF to relax conditions it imposes on loans to them. The main grouse of the developing nations is that many of them are indiscriminately asked to reduce their growth rate so that inflationary pressures could be held in check. An argument against this policy has been that in the developing countries inflationary pressures draw strength more from commodity shortages and less from growth in money supply. Also, often these countries generally have no other alternative but to resort to deficit financing and liberal bank credit policies, considering their resource shortages in relation to the financial needs of their growth programmes. At times IMF conditions have required that the recipient country slow the growth of its economy to reduce inflation, even though it would have meant an increase in unemployment.

These conditions, however, have extended even to the developed nations that have sought assistance from the IMF, as even reports in the Western press have indicated.

For instance the US newsweekly *TIME* commenting on "*IMF: THE LENDER OF LAST RESORT*" in September last year stated "*Ever since the explosion of oil prices in 1973-74 combined with worldwide recession, Witteveen has been like a busy fireman, dowsing the flames of inflation here, assisting dying economies there, and acting at times as if he were the head of a supranational central bank. Earlier this year the IMF provided a $ 3.9 billion emergency loan to Britain, which was strapped at the time with an enormous balance of payments deficit. Then it was on to Rome to negotiate a loan of $ 530 million to the Italian Government, which was on the verge of being overthrown because of chaotic inflation and an inability to finance oil imports. "What would have happened without the Fund", says one international banker, "is too ghastly to contemplate."*

But in return for those loans the IMF prescribes the kind of medicine that most governments detest; reduction in public spending, targets for lower inflation rates, tightening of credit, in effect, a reduction in the standard of living. Witteveen, to be sure, denies that the IMF imposes its will on creditor countries; "consultation" is all that it asks, he claims. The distinction is largely semantic: the IMF may not tell a borrowing country how much to cut its budget or how much to raise taxes, ... but it can keep refusing a loan until officials come up with budget-balancing measures that satisfy Fund directors. Says one official at the West German Finance Ministry: "Where it would be impossible for us or the Americans to bring real pressure on Italy, the IMF can do a good bit more, as an international body, without rousing veritable furore against us."

The IMF brand of discipline, when imposed, has helped to touch off riots in Cairo and intra-government disagreements in Peru. When the dictatorial Peruvian regime refused to impose IMF restrictions last month, both the head of the Central Bank and the Finance Minister resigned in protest. No doubt the IMF and the private banks will reach an accommodation with Peru, possibly by stretching out debt repayments."

"The IMF's stern discipline has a dark side: it could have a pernicious effect on world economic growth. When countries are required to reduce or eliminate their balance of payments deficits, there are fewer customers for the products of industrialized nations and fewer buyers of basic Third World commodities such as bauxite and copper. The end result could be a vicious cycle that would dampen investment and lower incomes."

The London *Economist* has consistently reported on what it regarded as hard conditions of the IMF in granting loans to developing countries which in turn had repercussions in the countries concerned. Referring to an IMF loan to Turkey in March this year under the caption "*TAKING THE IMF's MEDICINE, SLOWLY*" the Economist commented —

"Mr. Bulent Ecevit's new coalition government devalued the Turkish Lira by 23 per cent this week, and has thereby taken its first step towards agreement with the IMF.

With inflation already running at 50 per cent a year, the devaluation will pose domestic political problems for Mr. Ecevit — the left wing of his party describes the IMF as "an instrument of financial imperialism" — but he got his budget through Parliament on February 28th.

The devaluation is larger than the figure that Mr. Ecevit's advisers were hoping to get away with a few weeks ago. It meets the IMF's prescription, and the next round of negotiations between Turkish experts and the IMF's representatives in Washington will start within a few days. The IMF is likely to be less happy about last month's austerity mini-measures: an attempt to discourage importers from financing their business with overseas borrowings, and a limit of one foreign holiday every two years.

The budget debate passed smoothly, largely because Mr. Ecevit's government, confirmed in power only six weeks ago, had to adopt its right-wing predecessor's fiscal framework with a few political trimmings.

All now hangs on whether there will be agreement with the IMF. Turkey is being pressed into such an agreement by America and the EEC. It might extract $ 10 million from the IMF in two stages — not much, with foreign exchange reserves at around $ 500 million and debts running into several billions of dollars, but a seal of approval for international bankers".

More recently it reported as follows on an IMF loan to Peru "*The monetarists in the saddle and the riot police are standing by. But the generals are retreating from the Finance Ministry. Last Sunday evening Peruvians learned in special television and radio flashes about the medicine the new government of President Francisco Morales Bermudez is doling out in a last-ditch effort to get more loans from the IMF and foreign banks, whose reluctance to lend threatens many factories with closure. The prices of basic foodstuffs are going up by 50—110% (as subsidies come off) and petrol prices will rise by two thirds.*

Within the U.S. itself there have been pressures in Congress that the living standards of people in developing countries should not be affected as a result of conditions imposed by the IMF. When the bill for American participation in the IMF's $10 billion extended "Witteveen credit facility" came up for debate in March, Congress representative Tom Harkin from rural Iowa pushed through an amendment instructing the American executive director at the IMF to oppose loans from the Witteveen facility that would contribute to the "deprivation of basic human needs" or "the violation of basic human rights". The executive director will also have to report to the U.S. Congress through its treasury, each year on the impact of Witteveen — facility loans on living standards (especially those of poor people) in the borrowing countries. The amendments at first tried to apply these congressional conditions to all IMF loans, but but it was re-written to apply only to the new Witteveen scheme (named after the retiring managing director of the Fund).

The socialist countries outside the membership of the IMF have always expressed stronger views on the IMF's influence over economic policies of countries to which it lends. A typical view is expressed here by Yuri Nechayev a Soviet commentator in the article "What aims does the IMF serve?" extracted from the Moscow "New Times."

An Outsider's Comment — *a Soviet Viewpoint*

"What Aims Does the IMF Serve"

Yuri Nechayev

The International Monetary Fund was established by decision of the U.N. Monetary Conference held at Bretton Woods, in 1944, as an inter-governmental organization with a view to stabilizing monetary relations among its members. This stability was to be guaranteed by fixed exchange rates based on a fixed price of gold in U.S. dollars. Thus, along with gold, the U.S. dollar became an international reserve currency.

Stability was also to be guaranteed by the system of crediting members in the event of payment difficulties. The possibility to draw money from the IMF in case of need is very tempting for many governments. Membership of the Fund enables the states in acute need of external sources for financing their economies to obtain long-term credits and loans in the organisations closely linked with the IMF — the International Bank for Reconstruction and Development (World Bank), the International Development Association, and regional banks, such as the Asian Development Bank, the African Development Bank and the Inter-American Development Bank.

THE DOLLAR HEGEMONY

The pegging of the IMF currency system to the U.S. dollar has made the former dependent on Washington's economic and financial policies. The United States took advantage of its monetary hegemony to squander dollars on the militarization of the economy, the building of bases, the maintenance of troops on foreign territories, and on aggressive wars, as in Indo-China. The dollar was a sort of master-key with which the Wall Street barons unlocked the doors to the economies of other countries — by exporting capital and granting high-interest credits and loans.

By the late 1960s dollar injections into the capitalist monetary system assumed such proportions that the U.S. currency virtually lost its gold and commodity backing and the value of the dollar began rapidly to decline. The dollars deposited with foreign banks today exceed the U.S. gold reserves roughly ten times over and the U.S. annual exports, five times.

In an effort to preserve the position of the dollar as the chief reserve currency and the leading currency in international business transactions, Washington adopted in the early 1970's the policy of demonetizing gold, of ousting the universal world money from the system of settlements between states. The IMF introduced so called Special Drawing Rights (SDRs) as a substitute for gold in international payments.

At Washington's bidding the IMF agreed post factum to the introduction of floating exchange rates of currencies which fluctuate on the money markets depending on supply and demand. The attempts of other leading IMF members, above all the Common Market Countries, to restore the fixed exchange rates are being resisted by Washington. The United States "concluded that its interests would be adversely affected by the restoration of a par-value system in which it was obliged to maintain a fixed value for the U.S. dollar", writes Joseph Gold, Director of the IMF Legal Department. At present, the United States can pay its trade partners not only with the sagging dollar. It can also make use of the declining rate of the dollar to provide competitive advantages for American exporters.

Monetary instability, unbridled speculation, imbalances in the financial settlements between states, disarray in international trade and the glutting of money markets with depreciated dollars which make for inflation, such are today the features of the IMF currency system.

QUOTAS AND VOTING POWER

The principles underlying IMF activity rule out the adoption of decisions in the interest of all members. The votes in the Fund are distributable according to the amount of capital subscribed and the political weight of the members. Each of the 133 members has a voting power proportional to its contribution (quota) to the Fund's assets. For instance, the United States with its 20.7 per cent of the votes can virtually control the entire activity of the IMF, as a majority of 85 per cent is needed for adopting decisions on the more important questions.

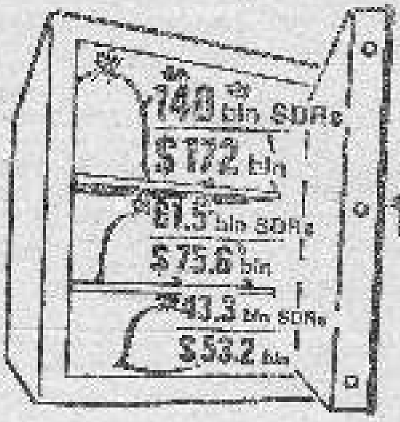
Special Drawing Rights which are considered the IMF unit of account, are also allocated in proportion to the quotas. In 1970, when the SDRs were issued for the first time, the United States received 24 per cent of the total sum, while 39 African countries received a mere 4.7 per cent.

In the first place, tough rules for granting credits have been devised. Under these rules, each member must submit to the IMF detailed information about the state of its economy, foreign trade and currency, budget expenditures, and domestic economic and social policies. The Fund agrees to grant a credit only after this information has been analysed and the country concerned has accepted its recommendations.

Many examples can be given to illustrate the political and class character of the approach to recipients, not only developing but also leading industrial states. For instance, having agreed to grant Britain a credit in 1976, the IMF demanded that the Labour government slash budget expenditure for social needs, reduce public consumption, and refrain from nationalizing a number of factories.

The Liberian press reported some time ago that the IMF had recommended to Liberia and Sierra Leone to revise their laws on capital investment with a view to their complete "liberalization". George Lent, a representative of the Fund, insisted on privileges being extended to foreign investors in those countries.

IMF experts often become arbiters of the economic and social



measures planned by a government and brazenly meddle in the internal affairs of one or another country. Small wonder, therefore, that the IMF diktat leads now and then to the aggravation of the political situation in recipient countries. The devising by IMF experts of an austerity plan for Egypt, which envisaged higher prices of consumer goods, can be cited as an example of such interference. These austerity measures, it will be recalled, caused mass disturbances in Cairo and other cities and were brutally put down by the Sadat government.

The political interests of imperialism, U.S. imperialism in the first place, are also evident in cases when the IMF suddenly displays generosity towards some country. In the past two years, for instance, South Africa has received more credits from the Fund than the other African countries. Israel, Zaire and the Pinochet clique in Chile are given preferential treatment by the Fund and the organizations linked with it. These countries are granted aid even when IMF experts consider this to be economically inexpedient, as in the case of Zaire. The attitude changes when a Left government comes to power in a developing country. In this case (as in Chile under the Popular Unity government) the IMF denies credits.

WHOM THE IMF AIDS

The IMF's subordination to Washington's foreign policy aims and the selfish interests of the Wall Street bankers becomes increasingly evident. The U.S. Administration regards the Fund not only as an instrument of financial pressure on the governments whose policy is unpalatable to the American monopolies. The Fund is now a sort of guarantor of capital investments and loans granted by American banks to foreign governments, mainly to Third World nations. According to the data of the U.N. Conference on Trade and Development (UNCTAD), the debts of Third World nations to private Western banks, the IMF and the World Bank amount to $250,000 million and continue to increase. The indebtedness of these countries is increasing at the rate of 22 per cent annually, and their expenditures on repayment of debts, by 25 per cent. In a number of countries new foreign credits have been less than what they spend to repay debts.

This is how Moscow's 'New Times' illustrates how the IMF's main currency reserves (in SDRs and U.S. dollars) are distributed among its members. On top it shows reserves of the capitalist "North" with the reserves of the OPEC in the middle and of the other developing countries at the bottom. It maintains that the data released by the IMF show that last year alone the "North" accounted for two-thirds of the overall increase in the official currency reserves. At the same time, it says, that a deaf year is being turned to the insistent demand of the developing countries for additional IMF credits in SDRs to help promote their economic programmes.

Concern about its profits from the high interest credits and loans issued to developing countries, Wall Street urged Washington and the IMF early last year to take prompt measures to guarantee debt repayment. To help the debtors overcome their difficulties in paying the interest rate, former IMF executive director Witteveen has proposed establishing a fund (named after him) and $10,000 million have al-

The Investment Promotion Zone

In March this year, the Greater Colombo Economic Commission announced a range of incentives to investors in the Investment Promotion Zone to be located in Katunayake — the first of several such zones that will be established under this Commission. Shortly afterwards it was announced that the applications of 20 investors had received approval and 8 enterprises had signed agreements with the Commission. A total of 70 applications and inquiries had been received for setting up projects in the G.C.E.C.

The idea of establishing an Export Processing Zone was also mooted in the early 70s but for reasons not divulged the then Government abandoned it at a later stage. The present Government however, at the general elections of 1977, obtained a popular mandate to establish an Export Processing Zone or a number of such zones within the country. Within less than a year the Government has completed the preliminary work required to establish one such zone in an area north of Colombo.

This Investment Promotion Zone is approximately 600 acres in extent and is located approximately 18 miles from the port of Colombo, adjacent to the Colombo International Airport at Katunayake.

The main objectives of the Greater Colombo Economic Commission are to encourage foreign investment, to induce industrial and commercial enterprises, to enhance export earnings and to facilitate employment and general development of the entire area within its authority. The establishment of an Investment Promotion Zone under this Commission is considered one of the key strategies for solving the economic problems of the country by the present Government; it is also a step towards an "outward looking" development strategy in accordance with which the Government has already liberalised exchange and import controls and opened up the economy for greater export–import trade transactions.

The concept of an Investment Promotion Zone is analogous to terms such as Export Processing Zone and Free Trade Zone. According to the United Nations Industrial Development Organization (UNIDO) definition, such zones involve "the establishment of modern manufacturing plants inside an industrial estate by offering a suitable package of investment incentives to both foreign and domestic entrepreneurs". In general the goods produced in such zones are meant for export.

In a number of countries around the developing world, there are instances where Free Trade or Export Promotion Zones are established. Asian examples are: India (2 Zones), Korea (2 Zones), Indonesia (1 Zone), Taiwan (3 Zones), Korea (2 Zones), Philippines (1 Zone) and Singapore (almost entirely a Free Trade Zone). The objectives of these different countries in setting up these Zones have, generally been the same, as indicated with respect to the objectives of the Greater Colombo Economic Commission.

From an economic point of view the success of a Free Trade Zone would depend basically on the ability to attract a substantial amount of investment into the Zone. It is for this purpose that various incentives such as tax holidays, concessionary import duties and other infrastructure facilities are provided for the investors. In this context, the Greater Colombo Economic Commission announced the following incentives to investors in the Katunayake Investment Promotion Zone:

(1) Industrial sites within the Zone will be made available to investors on a 99 year lease basis on the payment of a initial premium plus an annual nominal quit rent.

(2) The Commission will provide adequate and modern infrastructure facilities to the area

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ready been raised for this purpose. With regard to Portugal, the IMF merely guarantees the loans to be extended to that country. The Fund is providing only $50 million of the $800 million requested by Portugal, the remaining $750 million to be granted by banks in the United States, West Germany and other Western countries.

The IMF can no longer play the role of a rich uncle for its members also because its reserves in "strong" currencies — West German marks, Japanese yen and Swiss francs — are limited as a result of monetary instability and, above all, the weakness of the U.S. dollar. "Do we need an IMF", the Conservative London weekly, the *Economist* asks.

It is not surprising that the activity of the IMF as a frank champion of the U.S. interests is a source of increasing annoyance to the trade and monetary rivals of the United States — the Common Market countries and Japan — who are demanding that the IMF chiefs prevent Washington from using the monetary hegemony in its own interests. Bonn is reported to have been hastily devising a monetary stabilization plan for the EEC, to protect the community against the dollar sway in the IMF currency system.

The more than 30 year activity of the Fund shows that it cannot boast of a positive record in the light of the goals it has proclaimed. The monetary situation remains unstable. There is a chronic imbalance in international settlements. The debts of Third World nations continue to mount at an alarming rate, with very little progress being made in their economic development.

This explains why the activity of the IMF and associated organisations is criticised more and more often in the West and in developing countries. In 1974 a large group of newly-independent states came out in the United Nations for the establishment of a worldwide and truly democratic monetary system that would be free from the influence of individual countries or groups of countries. The same idea was advanced at the Fifth Conference of Non-Aligned Nations, held in Colombo in the summer of 1976.

International Monetary and credit relations should be placed on a democratic basis if world trade is to be expanded and the progress of Third World Nations accelerated. They should rest on the principles of universality, mutual advantage and the sovereign right of each member of the international community to determine its economic and social policies.

demarcated as the Zone. This would, in addition to services like water, power and roadway include an air-cargo terminal and container marshalling yard for sea going containers, a rapid and sophisticated telecommunication system and special banking facilities.

(3) Investment incentives will be offered on a graded scale, i.e. according to the siting of the factory in the Zone, creation of employment, export orientation, capital investment and development of technology.

(4) All imports of equipment, construction materials and other materials and other imports (except general transport vehicles) would be free of import duty while import and export activities would be free from control.

(5) A five year tax holiday will be granted from the date of commencement of commercial production.

(6) After the expiry of the tax holiday period, income tax on the turn-overs will be at 2 per cent on sales to other countries, and 5 per cent on sales to Sri Lanka.

(7) There will be a 10 per cent withholding tax on all remittances of royalty and technical service payments after the tax holiday period.

(8) All foreign personnel attached to the projects would be exempted from all taxes for the period of tax holiday of the particular project.

(9) All dividends paid to non-resident share-holders of the projects would be free from further taxes and all exchange control.

(10) Investment agreements would include guarantees for the free transfer of capital and returns as well as all the proceeds of liquidation.

(11) The shares of incorporated companies could be transferred to residents or non-residents and such transfers would not be subject to any tax or levies in Sri Lanka.

(12) Foreign banks will also be permitted to operate within the area of authority and will be entitled to a 5 year tax holiday period and a tax rate of 5 percent on profits thereafter; and off shore banking profits and approximately 25 per cent on general banking profits.

The range of facilities, concessions and financial incentives listed above, as extracted from the total package deal spelled out by the Greater Colombo Economic Commission, indicates the extent of willingness of the host country to attract investors into the Investment Promotion Zone to promote export oriented industrial development in Sri Lanka. In offering this range of incentives, Sri Lanka has acted on the assumption that the key factor that attracts foreign investors is the fiscal and financial incentives extended by the host country.

There are however factors other than the tax concession and financial incentives that tend to influence the decisions to invest and the location of investment. The socio-political and economic stability of the host country is one such important factor. Also, studies on Free Trade Zones have revealed that the efficiency of the administration of the Zone could be more important than the package incentives offered by the host country. Thus, the flow of foreign investment into the proposed Investment Promotion Zone in Sri Lanka would be influenced by the impressions that Sri Lanka has created in the outside world with respect to the country's capacity to sustain socio-political and economic stability and the country's ability to administer a Free Trade Zone efficiently. The word "stability" in this context has hitherto meant in practise the conditions in such countries as South Korea, Taiwan, Philippines and Singapore which are not Western style democracies.

There are several other factors that enter into the calculations of foreign investors in their decision making. One of the basic principles of locating an industry in a Free Trade Zone of a developing country by a foreign firm is the comparative advantage of producing a particular commodity at a relatively lower cost. In fact, the range of fiscal and financial incentives granted by the host country to foreign investors is also aimed at contributing to this comparative advantage. However, the key element in securing low cost production, especially in an export oriented product, is the availability of relatively cheap but skilled and semi-skilled labour required for production. Another similar element would be the availability of raw material or some other input that is essential for a given product at a relatively low price.

To the extent that industrialists are attracted to the Investment Promotion Zone due to the availability of cheap labour and raw materials in Sri Lanka, the expansion of industry in the Zone would benefit the country in terms of employment creation; that is, if investment in the zone is not at the expense of investment elsewhere. Similarly, the spread effects and the backward linkages of industrial growth would also be greater particularly, when local raw materials are used.

As of this date, there have not been any estimates made available by the Greater Colombo Economic Commission with respect to the cost of providing infrastructure facilities, anticipated flow of investment, expected number of job opportunities and projected export earnings associated with the Investment Promotion Zone. As such, it is difficult to evaluate the targets and the prospects for achieving these targets. For instance, the employment potential within the zone has been variously estimated at numbers ranging from 10,000 to 15,000. The capacity of the zone to generate job opportunities, however, would depend partly on the volume of total investments attracted and partly on the volume of capital required to generate each job opportunity. There is also the crucial factor of technologies adopted by the investor which is not easy to control.

However, it can be judged by the statements of Government spokesmen that great faith has been placed in the Investment Promotion Zone to act as a major project in Sri Lanka's economy so that rapid industrial growth, higher export earnings and a greater number of employment opportunities will be facilitated by this strategy. The socio-political as well as economic costs of this strategy, however, are yet to be identified.

Questions such as the impact on national sovereignty, the intervention in the local economy by multinationals and giant foreign firms, the environmental pollution resulting from industrialisation, also have not been adequately examined. The most fundamental issue raised is how far this concept effects self-sustaining and independent development.

COMMODITIES

TEA

Production fluctuates

World tea production by the end of April this year was lagging slightly behind that for the same period last year. Among the major producers North India recorded the biggest drop in crops — nearly 5 million kgs. less than in the first four months of 1977. Crop figures for Sri Lanka indicate a 2.5 million kgs. deficit for the first four months of this year. The adverse weather conditions were largely responsible for a heavy fall in production in the local tea crop in April and this situation was likely to continue into May with a further shortfall in production being anticipated.

The only significant increase in crops for any country was recorded in Kenya where production continued its upward trend of recent years and was up by 4.2 million kgs. during the first four months of this year. Kenya's rise in production of 24.3 million kgs. in 1977 was the largest increase ever recorded by a new producing country; production increased from a total of 53.5 million kgs. in 1974 to 62 million kgs. in 1976 and 86.3 million kgs in 1977. Kenya's share of the U.K. market rose to over 20 per cent last year from about 15 percent in 1976.

CROP PRODUCTION OF MAJOR PRODUCING COUNTRIES

		1977 m.kgs	1977 Percent	1978 m.kgs	1978 Percent
Sri Lanka	upto April	72.1	33.7	69.6	32.8
North India	upto April	31.9	14.9	27.0	12.8
South India	upto April	39.0	18.2	39.4	18.6
Kenya	upto April	29.7	13.9	33.9	16.0
Malawi	upto April	19.2	9.0	19.1	9.0
Uganda	upto April	4.6	2.2	3.8	1.8
Tanzania	upto March	4.4	2.1	5.9	2.8
Indonesia	upto February	9.7	4.5	10.9	5.1
Bangladesh	upto April	3.4	1.6	2.3	1.1
Total		214.0	100.0	211.9	100.0

Prices fall

By the end of April it was apparent that tea prices at the Colombo Auctions were not as firm as they were during the early months of last year. A drop of Rs. 2.60 was recorded in the gross sales average prices and Rs. 3.35 in the net sales average prices upto the end of April this year. There was a marked falling of prices in April this year and the general performance of teas appeared disappointing. Medium grown teas suffered the most and came down from Rs. 28/48 in April last year to Rs. 10/32 this year — a drop of 175 percent. Low Grown's have recorded the smallest decline in prices with a drop of 72 percent. The picture may not look too gloomy if the conditions that prevailed last April are considered. This period of last year represented the peak of a boom period for not only Sri Lanka teas but for teas of all origins. A comparison of gross prices for the first four months of 1977 and 1978 are given below.

Gross Sales Average Prices at the Colombo Auctions upto end of April

	1977	1978
High Grown	19.78	14.92
Medium Grown	17.43	11.25
Low Grown	17.70	20.19
Total sales average	18.35	15.75

Turnover deficit

The Gross Turnover recorded for April in respect of all categories of tea shows a very striking deficit. The total Gross Turnover shows a shortfall of approximately Rs. 140 million with High Grown's topping the list at Rs. 62.8 million followed by Medium and Low Grown's at Rs. 45.5 and Rs. 32 million respectively.

Gross Turnover (approx.)

	Jan/April 1977 kgs	Jan/April 1977 Rs. M	Jan/April 1978 kgm	Jan/April 1978 Rs. M
High Grown	20,030,730	396	19,732,688	296
Medium Grown	17.887,555	311	17,775.395	200
Low Grown	19,071,031	338	21,475,427	437
Total	56,991,316	1,045	58,987,510	933

When the figures for January to April 1978 are considered, High and Medium Grown's are seen to have recorded deficits of Rs. 100 million and Rs. 112 million respectively while Low Grown's have done extremely well to record a surplus of approximately Rs. 100 million compared to the same period of last year, thus reducing the total deficit to Rs. 112 million.

RUBBER

Brighter prospects

Prices for rubber at all auction centres continued their upward trend through April this year and were expected to show more favourable trends in the coming months. Closing prices at the Colombo auctions at the end of May of RSS No. 1 had moved up to Rs. 6.68½ per kg. as compared with Rs. 3.98 at the same time last year. On May 26, a record price of Rs. 6.67½ per kg. was recorded for RSS No. 1 Infact this was the highest price recorded for sheet rubber since Rs. 6.67 per kg. was touched on March 10, 1961 at the height of the Korean boom.

In all other grades too prices were far above those recorded during May last year. (This data has been made available at time of going to press).

The improvement in local auction prices on all grades of rubber is seen in the table below.

Grade	Closing Prices per kgm at end of month May '77	May '78
RSS No. 1	3.98	6.68½
Latex Crepes	4.93	7.01
Scrap Crepes	6.25	8.50
Sole Crepe	3.69	6.23
Froth & Cuttings	2.67	4.75
Scrap No. 1 Curly & Shell	1.75	3.00

Further, the overall steady market conditions in Colombo were attributed to short covering demand in the face of reduced arrivals at the public auctions. In the international auction centres too prices were moving strongly. In Singapore values were channelled on an upward path on strong speculative buying following reports that a Rubber Producers draft had been completed for UNCTAD's rubber Stock Pile scheme. Also, reports were out that the US Senate Armed Services Committee had approved the Stockpile Scheme and a Purchase Bill on commodities. In New York too, following these schemes, rubber prices continued to hold steady with information that the US General Service Administration intended to implement further rubber stockpile purchases of 5,000 pounds of sheet rubber monthly from October onwards.

SPICES

Prices rise but less available

Once again Sri Lanka's commodities are failing to gain maximum advantage from buoyant export commodity prices. The most recent example is that of spices where, despite an almost 100 percent increase in prices for several of the local spices, production as recorded during the first quarter of this year has shown a drastic fall. Despite the fact that a total of 1,787 metric tons of six different spices was exported in the first quarter of this year as against 1,960 metric tons in the same period last year, earnings during the first quarter of this year have reached Rs. 75 million as against Rs. 42 million in the same period last year.

An annual review of the spices situation for last year however, shows that in 1977 the total volume of spices exported increased by nearly 1,000 metric tons over that of the previous year. This situation was primarily due to a considerable increase in exports of pepper and cloves. Pepper exports amounted to 682 metric tons in 1977 compared to 10 metric tons in 1976; whilst cloves recorded an export volume of 978 metric tons as much as 603 metric tons more than in the previous year or an increase of over 160 percent. Exports of other spices however, recorded a decline in 1977; nutmeg and mace reaching a level of only 40 percent and cardamoms 60 percent of corresponding 1976 figures. Cinnamon recorded only a marginal decline.

In terms of value, total export earnings from spices in 1977 showed a marked increase. Earnings in 1977 reached Rs. 156 million from Rs. 98 million in 1976, an increase of nearly 60 percent. All spices, except nutmeg and mace, contributed towards this increase mainly due to higher prices received by them in 1977. A major share of this increase was from cinnamon which earned the country Rs. 73.6 million, contributing almost 50 percent of the total share of earnings from spices. The export earning from cloves, cardamoms and nutmeg and mace were Rs. 57.9 million, Rs. 9.8 million, and Rs. 1.8 million in 1977 compared to earnings of Rs. 68.9 million, Rs. 17.4 million and Rs. 3.4 million respectively in 1976. The most significant increase was that of pepper exports; though pepper contributed only 8 percent to the total spice earnings, this items performance was remarkable in that it increased it's earnings from a low of Rs. 0.23 million in 1976 to Rs. 13.82 million in 1977.

Greater overseas demand and prices, and higher prices at the Colombo auctions last year, were the factors responsible for the increased earnings. Average Colombo market price for cinnamon, cloves, nutmeg and mace and cardamoms moved up in 1977 over 1976 levels, (see table I). Despite a fall in the average yearly price of pepper from Rs. 38.17 per kilo in 1976 to Rs. 28.31 per kilo in 1977, export earnings from this commodity were significantly higher due to a greater volume of exports.

While 1977 on the whole had been a good year for spices, the performance of this commodity during the first quarter of 1978 presents a less promising picture. The volume of exports of all spices has dwindled during this period in comparison to the same period in 1977. (Table II). Higher prices again have been the major factor for increased export earnings from cardamoms and cinnamon during the first quarter of 1978, resulting in increased total export earnings during this period from Rs. 42.2 million in 1977 to Rs. 75 million in 1978.

It is unfortunate that the country is not in a position to take advantage of such favourable market prices due to fluctuations in our production. What is required is greater planned production and building of buffer stocks to exploit favourable market situations.

TABLE II — EXPORTS OF SPICES FIRST QUARTER 1977—78

	1977			1978		
	Volume (Metric tons)	Value (Rs. m.)	% of total	Volume (Metric tons)	Value (Rs. m.)	% of total
Pepper	—	—	—	514.8	16.1	21.47
Cinnamon	1,481.50	18.1	42.89	982.70	32.8	43.73
Cloves	276.70	18.3	43.36	198.54	15.5	20.67
Nutmeg & Mace	66.30	1.0	2.37	50.90	0.9	1.20
Cardamoms	35.60	4.8	11.37	30.54	9.7	12.93
Total	1,960.00	42.2	100.00	1,780.80	75.0	100.00

TABLE I — EXPORTS OF SPICES 1976—1977

	1976				1977			
	Volume (Metric tons)	Av. yearly price (Rs. per kilo)	Value (Rs. m.)	% of total	Volume (Metric tons)	Av. yearly price (Rs. per kilo)	Value (Rs. m.)	% of total
Pepper	10.00	38.17	0.23	0.23	682.23	28.31	13.20	8.48
Cinnamon quills & chips	5,001.95	9.80	68.94	68.76	5,739.37	14.35	73.56	47.02
Nutmeg		15.87				30.74		
Mace	372.28	31.96	3.39	3.43	153.29	36.21	1.83	1.17
Cloves	375.11	90.16	17.42	17.62	978.21	85.04	57.93	37.03
Cardamoms	121.48	137.39	8.85	8.95	71.48	169.29	9.84	6.29
Total	6,880.82	...	98.83	100.00	7,574.49	—	156.44	100.00

FISHERIES BANKS

With the diversification of the People's Bank activities the need to develop specialised services to meet particular requirements of significant customer groups has been increasingly felt. In the case of the rural farmer and the artisan the Bank's strategy has been largely to promote Co-operative Rural Banks. Through such agencies a full range of loan and deposit facilities have been made available to meet the needs of these two groups. As a further step in this direction the Bank decided early this year on a scheme for the establishment of specialised Fisheries Banks with a view to popularising the banking habit and raising the socio-economic standards of the poorer segments of the fishing community. These Banks are a corollary to the Rural Banks inaugurated in 1964 which provide a comprehensive credit scheme to th agricultural and artisan sctor. They aim at servicing the less privileged fishermen more effectively than the existing Fisheries Co-operatives.

On the whole most Fisheries Co-operatives have not ben able to cope adequately with the demands and requirements of thier members.

These Fisheries Co-operatives were expected to develop into financially strong and viable oraganisations and play the vital role expected of them. Unfortunately most of them failed to live up to expectations

The failure of these Fisheries Co-operatives to provide a comprehensive credit structure for those engaged in the fisheries industry made it necessary for the People's Bank to evolve a scheme which would be beneficial to the fisherman and at the same time maintain the essential characteristics of the Co-operatives.

The proposed Banks would be housed as far as possible in the buildings presently used by the Fisheries Co-operative Society and the Banks would maintain a close liason with the Co-operative Society. The staff will consist of personnel who are expected to maintain a close dialogue with the fishermen, provide them the broad financial, social and psychological support that they had from the traditional mudalali. It is expected that the Banks would be able to perform at least some of these functions. For instance, the Bank's Development Assistant is expected to spend most of his time maintaining close contact with the fishermen literally on the beach and in the market. He will look into not only the pure credit requirements of the fishermen but also seek ways to provide facilities to cover the total package of problems facing the fishermen including their problems on catches, storage and marketing.

A first step towards this programme was launched in February when the Chairman, General Manager and other officials of the Bank visited a fishing hamlet at Dharmapala Road, Mt. Lavinia. The Bank's Chairman discussed with the fishermen thier problems and the solutions which the Bank could offer. Within half an hour names were proposed and seconded for the formation of a Co-operative. One person even offered his compound to put up the building and the fishermen agreed to share the expenses of the building which will consist of only one room. Names of the fishermen and the boat owners were listed and it was found that of the nearly 150 only five owned boats and none of them were mechanised. One of the main complaints of the fishermen was that they do not have the means to live during the monsoon seasons. The usual practice for the fisherfolk in certain areas was on the advent of the monsoon on one coast to migrate to another coast. However, this involved capital and organisation beyond the capacity of individual fishermen and this function is usually undertaken by the mudalali (middleman). The mudalali visits the fishing village and signs up individuals to whom he pays an advance which is an interest free payment to consolidate the commercial relationship. The fishermen agree to migrate leaving their families provided for from the advance payment and they give over their catches to mudalalis at pre-fixed prices. Rough accommodation and advances for provisions and drinks are provided by the mudalalis and accounts are settled at the end of the season.

This contract system is generally viewed with alarm, as sheer exploitation by the mudalali who takes advantage of the poverty of fishermen to extract all surplus value for himself. This factor has been attributed to the chronic indebtedness of the fishermen. However, due to the lack of support financially they are not able to organise themselves to carry out this type of operation. In this particular hamlet at Mt. Lavinia they have not migrated to other areas. One purpose of the proposed "Fisheries Bank" here was to evolve schemes which could provide credit facilities for these fishermen to tide over the monsoon season.

Another aspect which the Fisheries Banks would look into is providing technical know-how to fishermen for repairing their mechanised boats.

The Bank has also realised that a network of "Fisherman's Banks" would no doubt help the fishermen not only in their day to day operations but also in the long run by providing them with incentives to save.

As a general rule fishermen are not used to the savings habit, and the opening up of these Banks is a first step towards providing institutional arrangements for disbursement of credit to a sector of the community that has been long neglected. This scheme basically attempts to improve the small boat sections of the fishing industry in teaching and handling of fish.

In siting Fisheries Banks preference is being given to areas where fisheries harbours are functioning, or where there are heavy concentrations of resident fishermen, or where fisheries co-operatives are situated. Hours at these banks will be adjusted as far as possible to suit the convenience of the fishermen in the particular area.

Among the facilities to be provided are:

(a) Maintenance of savings, investment savings accounts and fixed deposits accounts.

(b) Pawn-broking.

(c) Loans for production, purchase of small boats and fishing gear, housing, redemption of debts, emergencies and essential consumer needs.

(d) Facilities under the Bank's "Athamaru Loans" Scheme.
(e) Facilities for diversification into other fields of gainful employment during off-seasons.

Under this scheme a fisherman could obtain a loan up to Rs. 7,500/- for the purchase of small boats, traditional crafts, nets, fishing equipment, outboard engines etc. He could also obtain loans for house construction up to Rs. 5,000/-, redemption of debts up to Rs. 5,000/- and for emergencies to assist a member of the immediate family in case of illness, marriage or death.

Repayments of these loans will be in easy instalments, according to the income pattern of the borrower. Thus a fisherman could opt to pay his loan instalment, either weekly, monthly, quarterly or half-yearly, and the period for repayment could be extended up to five years, depending on the security provided. Consumer loans and loans for emergencies have to be repaid in one year, while loans for house construction could extend up to a maximum period of 15 years.

The Fisheries Bank has also relaxed the rules regarding security for loans to fishermen. Two fellow fishermen could guarantee a loan up to Rs. 1,000/- and in certain situations up to Rs. 2,000/-.

So as to encourage fishermen in the savings habit, a condition precedent for the grant of a loan is that such fishermen should maintain a Savings or Investment Savings Account. Presently, the People's Bank is conducting a detailed survey of the progress made by the Fisheries Banks, its impact on the fishing community, and the response of the fishermen to the Bank. It is still too early to assess the impact of this experiment on the fishing community; but one thing that emerges clearly is that in course of time the fisherman could reduce, or break off altogether from his heavy dependence on the mudalali.

For a start a net work of Fisheries Banks are being opened on the Southern Coast and the five Banks opened so far are located at Moratuwa, Panadura, Weligama, Ambalangoda and Tangalle. These Banks are functioning as separate units attached to the Peoples Bank and more such Banks are due to the opened in coastal areas to serve specific needs of the fishermen.

ENERGY

SMALL HYDRO POWER PLANTS

Utilising Water Release from Irrigation Tanks

The concerted cut backs in production and price increases of oil from late 1973 and subsequent fears that most of the world's oil reserves may be exhausted before the end of the century has excited much interest in alternative sources of energy. In Sri Lanka too, despite the availability of a high hydro-electricity potential and other possible energy sources, our increasing dependence on oil as a major source of energy has caused growing concern. The fact that the oil wells will be running dry seems to be more a cause for optimism that it does for gloom for those who have faith in simple technology and alternative energy sources such as plant wastes, the sun's warmth, rushing wind and falling water. The research into alternative renewable energy sources has been stepped up in most countries, and one area that is receiving wide attention is the exploitation of small hydro-power sources. Electricity can be generated on a small scale for local use with turbines adapted to slower, or lower, volumes of water. They are once again gaining popularity in the West; and small generators for units under 50 KW, have been installed in China by the thousands for village use.

The small hydro-power plant and its wide use in China has come into prominence in recent times with the Government's intention to send out a team of engineers to study the Chinese experience in this regard. A brief survey of the current technology reveals the existence of a large number of turbine manufacturers in several countries which offer small hydro-electric units with outputs as small as ½ KW. Even in countries such as U.S.A., turbine manufacturers have developed hydro-electric units with outputs as small as ¼ KW. A turbine manufacturer in the United States offers suitable "packaged" hydro-electric units off the shelf with electrical outputs ranging from 0.5 KW to 10 KW. For each power output, several turbine designs are offered, to suit varying heads from 8 feet to 25 feet. These packaged units employ propeller-type turbines with fixed blades and are directly connected to the electric generator. In addition to these packaged units, the same manufacturer offers the traditional type of 'Francis' turbines. One model available develops 15 KW at 291 r.p.m. under a head of 10 feet. Its low speed requires a belt or gear connection to the electric generator. The Soviet Union builds fixed-propeller units very similar to those described above. A firm in England offers small units of capacities even as low as 10 KW operating under heads of 10 feet and above. There are several firms in Canada, West Germany, France, Switzerland, Hungary, Japan and India that manufacture small hydro-electric units for outputs from 3 KW upwards at heads ranging from 4 metres and above.

Published information indicates a rather widespread and reliable technology of small-scale, low head hydro-electric plants in the People's Republic of China. The literature has also indicated their growing popularity in rural areas where thousands of units of less than 100 KW capacity have been installed, including one wooden turbine for a 10 KW hydro-electric plant.

South of the 24th parallel; China is a country of heavy rainfall and sharp relief suited to the development of hydro-electricity. By 1975, some 60,000 small hydro plants had been constructed, over 95 per cent being located in the wet, southern part of the country.

Most of these plants are very small, averaging about 42 kilowatts — enough to provide energy for four North American cooking stoves. The Chinese do not use this precious energy for cooking. Instead, it is husbanded for household lighting (one or two 15 to 40 watt bulbs per house) for irrigation pumping (12 kilowatts can power local irrigation and drainage facilities), and for rice husking and milling — all labour intensive activities. One county in South China reports one million work days a year saved by mechanised grain processing from locally generated hydro-electricity.

Following guidelines of self-reliance and self-sufficiency, the majority of small hydro plants are constructed by local peasants from local materials. A particular interesting use of an irrigation canal has been made in Linhsien, in China where a series of 26 small hydro-electric plants have been built along the 12th channel of the No. 1 Branch canal of the Red Flag Canal irrigation system, taking advantage of the progressive drop in elevation. The first plant, capable of generating 250 KW is located at the bottom of a 15 metre drop, at the top of which is a sedimentation basin, to remove the sand and silt. Thereafter, at every 5 metre drop in elevation, one 40 KW turbine has been installed, each one preceded by a sedimentation basin.

Small scale hydro-electric units lend themselves to significant cost reductions through local enterprise.

The technology on small hydro-electric plants has been developed in most countries and such units are being made with outputs even as low as ½ KW. The technology for power units in the range of 250 KW to 3.000 KW is even more developed. For instance, typical mini-hydro plants producing 300 KW under a head of 13 feet and a flow of about 250 cusecs are now available in the market. The production of small standardised turbine units in the range of 500 KW to 3.000 KW at heads ranging from 20 feet to 75 feet is being undertaken by several manufacturers on countries such as Switzerland, India, Japan and France. There are numerous examples in Japan where irrigation water releases are being used to operate small hydro-power plants of capacity 1000 KW and upwards at heads ranging from 20 feet to 70 feet. The unit costs of these plants now compare very favourably with those of the bigger schemes.

Most of the major irrigation tanks in our North Central Province have water releases of 200 cusecs and over at heads ranging from 20 feet to 50 feet. For example, the Minneriya tank has a maximum discharge of 525 cusecs and an average discharge of 230 cusecs. The Parakrama Samudra has an average discharge of 300 cusecs with a maximum discharge of 510 cusecs. Considering the present technology in this field, it would be conveniently possible to install small hydro-power plants operating on the water release of the irrigation tanks.

As far back as 1963, action was initiated by the then Hydro-Development Branch of the Department of Government Electrical Undertakings to construct a small hydro-power plant at Minneriya. The design envisaged a plant of 550 KW capacity. Designs and specifications were prepared and tenders invited. Bids were also received. However, perhaps due to the proposals for the extension of the hydro supply to the Minneriya area from the National Grid, this project for the installation of the small hydro-power plant at Minneriya has not been proceeded with.

With the diversion of the Mahaweli waters to the North Central Province, the prospects for this plant have further improved. This additional controlled supply of water to the Minneriya tank would improve the conditions of head at the outlet sluice and would more than justify the installation of a plant of bigger capacity, say, 1000 KW. It has to be appreciated that such a plant could generate approximately 4 million units of energy per annum, depending on the water releases for irrigation purposes.

The Minneriya power plant could serve as a pilot project and it should be possible to construct similar small hydro-power plants at the other irrigation tanks. Some of the tanks that could be studied for the installation of such hydro-power plants are Kalawewa, Rajangana, Parakrama Samudra, Padaviya, Kaudulla, Huruluwewa and Nachchaduwa.

In addition to these major tanks, there are almost 300 irrigation tanks of moderate size where small hydro-power plants of suitable capacity could be installed.

In considering the energy options for Sri Lanka it is very necessary that the hydro-power potential in the water released from the irrigation tanks be fully utilised by the installation of suitable small hydro-power plants. Action could also be taken to exploit similar potential in the small streams of the hill country, which until a few years ago, were harnessed on several tea estates to operate small hydro-power plants.

AGRICULTURE

Food Grain Output Conflicting Reports

The FAO foresees a comfortable food availability situation the world over this year. It expects a rise in the combined world wheat and coarse grains output in 1978 and hopes that even in the case of that expectation not materialising carried over stocks of cereals, estimated at 176 tonnes, could act as a buffer and ensure minimum world food security in 1978/79, albeit at higher prices.

FAO's first tentative estimate of combined wheat and coarse grain production in 1978 is for 1,120 million tonnes, which is slightly higher than in 1977 and includes a five per cent higher wheat crop of 405 million tonnes and one per cent higher coarse grains crop at 715 million tonnes.

An FAO survey has also indicated that there were 45 "seriously affected" countries where food production per person decreased by 0.4% during the period 1970 to 1976. Although there was food in the world to feed everybody, inadequate distribution increased world's food hungry by nearly 14 per cent since 1970. The number of under nourished people in the world has risen from 400 million in 1971 to 455 million in 1974.

A recent study of the rice situation in the ASEAN countries shows that Indonesia was most in need of imported rice; severe drought and pest attacks in the past two years have resulted in considerable depletion of her rice stocks in 1978 too. Despite an expected harvest of 15.3 million tonnes of milled rice Indonesia anticipates a demand shortfall of 1.5 million tonnes and would need to import annually two million tonnes. Singapore would be looking into the possibility of buying rice from the Phillippines this year; while Malaysia would be in need of regular imports of glutinous rice "estimated at 25,000 tonnes this year from Thailand". Philippines annual production is estimated at 4 million metric tons with a projected surplus over domestic consumption of 650,000 tonnes at the end of June 1978. Thailand is expected to have a surplus of 1.2 million tonnes but a major part of this has already been committed on a Government to Government basis for shipment in 1978, mostly to other Asian countries. There are still serious food shortages and nutritional deficiencies in several areas of the Asian region. One cause for concern is that one-third of last year's entire world trade in rice (over two million tonnes) went to Indonesia.

Basic Services Delivery in Underdeveloped Countries — the Bangladesh experience

Lionel Siriwardena

> The FAO's Freedom From Hunger Campaign/Action for Development unit organised a programme for "Change Agents" in the south-east Asian region over an eight week period from March this year where together they discussed and analysed informally the major issues and problems faced by rural change agents and learnt of social and human skills necessary for initiating a participatory development process. Mr. Siriwardena, a Research Officer from the People's Bank, who participated in this programme gives his impressions here of a case of participatory development in action. He acknowledges the assistance of Dr. Zafrullah Chowdhury and Mrs. Geetha Chakrawarthi who provided him with much of this information and assisted him during his field visits to this project in Bangladesh.

Development cannot be brought to a people, it must come from within them, if we accept that development is basically a process of liberating people — "freeing them from paralyzing tradition and exploitative systems, from want and deprivation. The development referred to here is what is known as "participatory development" — a development that will involve men and women directly in the process of change, that will give them the opportunity to participate in those decisions that affect their lives and also in the implementation of those decisions. Many developing countries have made genuine attempts at this type of development but several more have only paid lip service to it.

Development in the country's of the Third World, which are largely agricultural, must actively involve the rural people. But even in development of these rural areas basically two different types of approach have been observed. One is the "participatory" approach and the other a "directive" approach.

The *participatory approach*, as we have seen, follows from the broad objective of the over-all development of people and their potential. It should be what is called a "bottom-up" approach, particularly in our Asian countries where people are the biggest resource. It is clear that if their tremendous potential can be released, and their energies and motivations realized the pace of development can then also be well accelerated. Though centralised planning cannot be done away with the participatory development approach demands a great deal of decentralisation.

In the more *directive approach* the rationale is to get on with the job; to get it done as soon as possible to beat the clock. The assumption is that if the 'goods are delivered', the conditions of people will automatically improve. So, ready made plans are sought to be somehow implemented. Attempts are made to involve people, but not as an intrinsic objective of the programme. People's participation is merely looked upon as a means to get 'sanction' for a pre-cooked, pre-packaged plan of action.

Both these approaches to development are in use in different parts of Asia. Some organisations function in a 'directive' way while others prefer a more 'participatory' approach, and some fall in between these two categories.

A recent regional training programme for "Change Agents", organised by the FAO's Action For Development, for participants from Bangladesh, India, Nepal, and Sri Lanka gave us the opportunity of observing both types of development in action. A good example of the participatory approach being adopted in Bangladesh is that of the *Gonoshasthaya Kendra*. The impressions set out below are intended to give an idea of how effectively the concept is being put into practice.

The morbidity rate among the under privileged sections of our developing countries is so high that the curative aspect of medical care is naturally demanding greater attention. Most of these rural people who live in remote villages are cut off from the towns and cities where modern health facilities are available. Among such communities even a very basic health service could bring about a vast improvement. The extension of urban patterns of health services, however, will not solve these rural problems; and ideas derived from curative medicine in the context of developed countries are unlikely to be appropriate for preventive work in the rural villages, for most of their health problems have got aggravated due to a lack of attention and do not require the services of highly trained physicians or facilities of modern hospitals. Hospitals and doctor oriented "developed country" type curative medical care systems have helped to foster a strongly urban-based medical education and health service. Such training has also been found to be not quite relevant to health care needs of rural communities. Bangladesh is a clear case in point.

In Bangladesh a group of its own people and some of their own young Bengali doctors came to realise that an integrated approach to the development of the community was the best means of providing a basic health care service in an under developed country such as theirs. The idea of *Gonoshasthaya Kendra* or people's health centre was thus born. These doctors had worked with the Bangladesh hospital during their "war of liberation" in 1971 when it served refugees and liberation forces on the Indian front. At the end of the War they moved back to Bangladesh and into a rural area covering nearly 300 villages, with a population of about 200,000, where they found that there wasn't even a health centre. In this area, called the *thana* or administrative unit, they found that the practice from British times had been to appoint one Sanitary Inspector and a few assistants to provide the entire health, education and immunisation services of such a vast area.

A significant finding they made was that these Central government employees were given no supervision, were poorly paid to operate their programme and had no ideas or intention for community involvement. The result was that most of what they put forth was ineffective. These doctors, led by Zafrullah Chowdhury, coming into this *thana* (Savar) in 1972 started by holding meetings with villagers and students in the area in order to find out how they could best bring health services to the people of the area. Initially they recruited over 100 part-time volunteers from amongst the students who were to carry out vaccination and health education programmes. They needed a base from which to organise their activities and land was donated for setting up their main centre at Savar. Then their programme moved into operation.

In their early meetings with the villagers these doctors found that the allied groups in the field who were the more vocal members often dominated and tried to impose their ideas of health servicing on the entire project. Thus at the start a decision was taken to charge a flat fee for all families of two taka, which is the equivalent of about two Sri Lanka rupees. It was later realised that the poorer sections of the population were unable to pay even this and so fees had to be modified making a differentiation between the rich and poor villagers. After nearly one year's operation it was realised that part time volunteer workers could not fulfil the demands this project's work was making on them. It was therefore decided that a full-time paid worker was necessary and here came into being the concept of their paramedic which has continued to evolve while retaining the basic characteristic of a worker who brings community development services to his village.

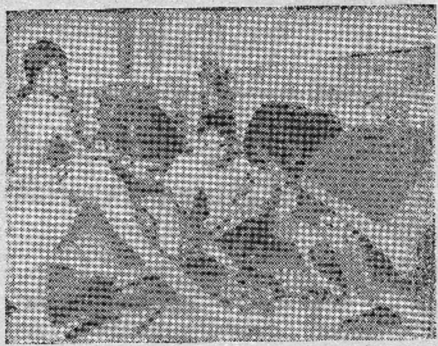
An Integrated Approach

The Gonoshasthaya Kendra team now realised that a strict medical approach would not produce a healthy community. Moreover, without the involvement of the community anything that was produced may have questionable value. What started as a health centre in the village therefore came to include community development as well, and also family planning, vocational guidance, agricultural extension and human development programmes. The health services could be considered an "entry point" to these rural areas, but to lift the conditions of living in the villages health services alone would not suffice. They realised that the villagers had many interconnected social and economic problems and it would serve no purpose dealing with only one aspect of their problem. Thus the paramedies were trained not only in areas of health education, nutrition and hygiene, curative care, immunisation programmes, pre and post-natal care, family planning and delivery services and follow up; but also basic pharmacology, record keeping, elementary pathology and minor surgical procedures to be capable of performing female sterilisations. In addition they were trained to give advice in regard to agricultural and livestock problems and offer basic veterinary services. Most important, they developed an understanding and sensitivity to the life of the village.

They did not preach Vitamin A capsules, but rather local green vegetables. Unlike the doctor who doled out two to six large *piperazin* tablets (a child's dose for intestinal infestation with round worm) to be taken at home, the paramedic had the child take the required treatment in front of her, being aware that a mother would be hesitant to give such a large dose of medicine to a child at one time.

It was also the paramedic who questioned the wisdom of the antenatal clinics. For the population being served in one sub-centre area (15,000 to 20,000), there would be approximately 800 pregnancies in a year. Out of this number no more than 15 to 20 per cent would be "at risk" pregnancies, that is, women requiring special attention. Gathering all of the women and having them sit unnecessarily was neither an efficient use of their time nor of the clinic's. An alternative was to have the paramedics pay regular visits to these 'at risk' pregnant women most likely to have difficult labour or other pregnancy problems and give them the necessary instruction and observation. The result was generally no maternal death in the area.

Further, effectiveness of the work of the paramedics in health education was seen when an evaluation team recently visited the



Village women learning carpentry from a Gonoshasthaya Kendra worker.

area and found virtually no skin disease, nor did they come across any diarrhoea. This did not mean that there is no longer any incidence of diarrohoea, rather now the mothers know how to mix the dehydration fluid, and will use it when diarrhoea occurs.

The selection of the paramedics involves the villagers. This leads to a greater responsibility for the programme, on both sides. Members of the community chosen to interview the new recruits are older villagers, but from among the wider mass of the poorer class. class.

The Subcentre: a Community Centre

At communicating distance from the main or referral centre, the subcentre serves as a grass roots, community-centered. base, which generally renders all those services available at the main centre: curative medicine, pathology, minor surgery, including tubal ligations and facilities for obstructed labour. The subcentre also serves as a storage place for poultry vaccine as well as general drugs, and vaccine for immunization of the general population. It is a centre for vital statistics, information, records, the place of payment for services and women's vocational training. A gathering place for the local community it would eventually become a general educational resource.

The subcentre is meant to serve an area of 10 to 15 villagers, with a population of from 15,000 to 20,000. There would be an average of 3,000 population per paramedic at the subcentre, and one *dai* (traditional village midwife) per 1,000. Also one female village worker, per 1,000 population. The village worker and the *dai* togethey would cover the following areas of activity: Deliveries, basic child care, family planning (service and follow-up), tubewell maintenance, directing children to school, livestock immunization, vocational training of women, food and seed processing and storage, preservation of surplus fruits and vegetables, and the planting of fast-growing trees for firewood and compost. Each subcentre would also have one supervisor for the overall community programme. They have six sub-centres beside the main centre. Every week there is a clinic. For the rest of the week, the paramedics go to the villages. One paramedic stays at the sub-centre all the time.

Paramedic's Perception

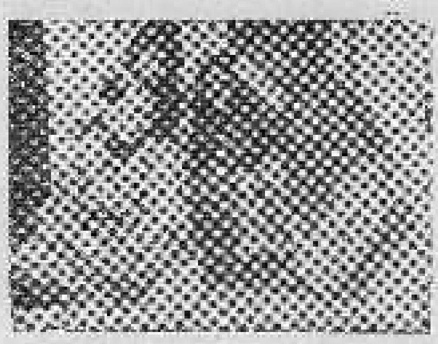
A qualified doctor might well know to treat a patient. He will diagnose the disease and duly administer treatment, but the ill health of the villagers is of a different type which medicine alone will not cure. It is necessary to know not only what disease they suffer from, but also what causes their ill health; their lack of food and sanitary conditions and their generally grinding deprivation. In many cases, parents in these villages gave up all hopes for their children in case of any serious illness. They did not have the money to see a doctor and to seek treatment. The gap is indeed great between urban dwellers and the people of these villages; it appeared to be even greater between the educated and qualified doctors and the poor illiterate villagers. To many villagers the paramedics still appeared to be those same doctors from the city, who, in the words of one poor villager "has come like God to save our lives". The paramedics themselves realised that many mistakes had been made initially. According to one "perhaps the greatest initial weakness of the *Gonoshasthaya Kendra* was that its leaders came from the city and many mistakes were made from doing things through an urban resident's point of view. To many of them, at the start a big imposing building, a beautiful modern hospital seemed to be the best. But it was realized that such buildings would only alienate the leaders. Since then we have built our own sub centres out of mud and thatched roofs like the village houses", said one paramedic.

The Doctor Myth

"For better treatment consult a qualified doctor and go to a good hospital" — these are the myths formally embedded in the minds of the average villager in these regions, according to the experience of the paramedics in the *Gonoshasthaya Kendra*.

One paramedic explained this idea to us in the following words: "For a basic essential health care service no formal education seems necessary". One female paramedic in the *Gonoshasthaya Kendra* who could barely write her name, performed tubal ligations as well as simple surgery for four years. Another educated paramedic told us that her education created a gap between her and the villagers. They did not always understand what she said, because the villagers had a different kind of life and way of looking at things.

One of the main sicknesses children die of in Bangladesh is diarrhoea. There is a simple solution which can be made in any house, that can save almost all patients. Paramedics teach the mothers how to make this mixture — one glass of water to two teaspoonfuls of sugar or molasses and half a teaspoon of salt.



A paramedic teaching the mother of a sick baby how to prepare oral diarrhoea mixture during a home visit.

The *Gonoshasthaya Kendra* also showed concern for the education of children in these villages. To them education was not instruction which would equip them to do impossible or useless things. It was something which the villagers would feel they have a need of and know to be possible in their situation. Their education was thus practically attached to the needs of the immediate environment; for the children of the very poor (landless) a "functional school" was begun. The need for education to cater to their practical needs was emphasised by one paramedic with the following statistics.

"Bangladesh government statistics indicate that 58 per cent of the nation's school-age children do not attend school. Surveys show that only 14 per cent of those attending continue after five years and only one per cent go on to college or university studies. On completion of the 'higher education' students generally remain jobless. In the case of girls, 14 per cent complete 5 years of schooling and boys 33 per cent, according to a survey conducted in Savar."

Initially the school at the *Gonoshasthaya Kendra* was limited to an enrolment of 50, but expanded to 100 after the first year. Students accepted are between the ages of 6 to 10. As the paramedics who surveyed the villages have access to them, a careful study was possible, and only the very poorest were chosen to attend. The site of the school is at the project's land in Savar. A mud building has been erected, along with bamboo, swings, slides, see-saws, etc. The areas of health, hygiene, physical education, carpentry, machine shop-work, agriculture, music, arts and crafts are included in the curriculum.

Indebtedness

Indebtedness among these villagers is no different from that in many Asian rural communities. In these areas of Bangladesh particularly the farmers find themselves often short of money for food and other basic necessities and are forced to borrow. The money lenders charge them extortionate rates of interest — for each 100 taka they must pay back an interest of 30 to 40 kilograms of paddy, in a three to four month period: an equivalent of 250 per cent interest. The *Gonoshasthaya Kendra* has initiated action to relieve what seems an insurmountable problem. They started the following small project to see more clearly what the difficulties were and how they could be overcome. Sharecroppers and poor farmers living in villages surrounding the project who had relatively close ties with the *Gonoshasthaya Kendra* were given loans upto 200 taka each, during the difficult period when food is particularly scarce, at half the regular interest rate. The interest is used for creating revolving capital. The reaction of the village money-lenders was not hard to predict.

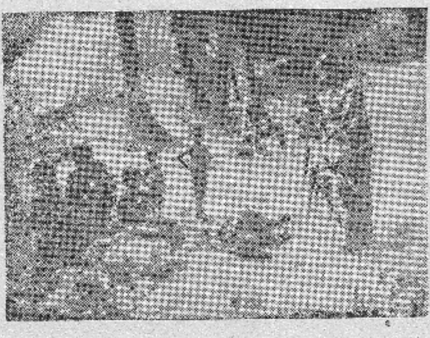
A further attempt to assist the farmers of the area has been with the experimenting in the line of agriculture on the project site. In 1974 an attempt was made to find someone who could head this agricultural work. But to get someone with the knowledge and willingness to integrate with the villagers seemed impossible.

Family Planning

The demand for family planning services always existed in these villages, and almost from the beginning of the programme the *Gonoshasthaya Kendra* began offering family planning service, but always within an integrated programme. Without real efforts at assuring parents that their children would reach adulthood it was felt they could not be denied the right to sons and daughters of their own. The programme, therefore, has directed its efforts into providing the needed health care, educating parents in birth control methods and family planning in order to properly motivate them, and, once the method was chosen, to carefully follow up each client with house to house visits on a regular basis.

The traditional birth control attendant, or 'dai', has also been successfully incorporated into the programme. Remaining in the village she works on a part-time basis, distributing pills, checking for side-effects, assisting where possible and referring to the centre or sub-centre where needed. She is also taught to spot pre-eclamptic patients and other possible labour and birth difficulties, and to instruct the mothers in regard to child care. Because she is village based, her drop-out rate in regard to family planning acceptors is lower than that of the paramedic.

Since the beginning of the programme in 1972, a steady pattern was noticed of clients moving towards a more permanent method of contraception, once family planning has been accepted. In 1974 the *Gonoshasthaya Kendra* began to offer female sterilization performed by the paramedics, and found that a relatively large demand existed for this method.



A paramedic arriving on the scene of emergency on her bicycle.

The sterilizations are performed under local anaesthesia, both at sub-centres and the main centre. Paramedics, trained to perform these operations have proved themselves to be quite skilled. The villagers prefer the female paramedic to the male physician, and it had been noted that the infection rate for the paramedics is lower than that of the doctors. The reason for this may be that the doctor is generally an occasional operator, and there is doubtless a tendency for him to assume the task of the more difficult cases for himself. The paramedics, too, may be more prone to pass over to the doctor what might promise to be a more complicated operation.

Another Reality

"Health education alone can only go so far. You cannot teach them about good nutrition (except for breast feeding) when food is not available" said one paramedic. It is merely another form of inappropriate education. "Why are you telling me to do something, when, as good as it is, I know it is impossible"? asked a villager. Face to face with the village the *Gonoshasthaya Kendra* has come to realise more and more what is possible and what is not.

The director of the project, Dr. Chowdhury drew attention to the innumerable obstacles these paramedics have to encounter in breaking through the traditional and exploitative systems. He recounts a particular case thus:

"Nizam was 25 years old. He had been with the project as a paramedic since its inception, and when a paramedic subcentre was to be set up at Shimulia he was the one arranging the final details of the land. It was felt that the coming of the centre to Shimulia would threaten the fraudulent pactices of a good many people, including illegal possession of government lands, smuggling, and selling health centre drugs. Among those involved in the illegal activities was a qualified physician in the area, who was making a handsome profit. Nizam did not realise just how great a threat the new centre was. In collaboration with local officials, i.e. the union chairman and a union member, the physican is said to have hired a group of thugs to have Nizam murdered, confident that he could make the necessary payments to the proper people, allowing him to continue his illegal work, along with his cohorts, and ensuring that the centre would not become a permanent fixture in Shimulia. Nizam lost his life, and now an almost incredible struggle for simple justice seems to be availing nothing. We have come face to face with the village. We have reached, it seems, our limit. Do we carry on with our small struggle or are we sustaining a system that would (and should) crumble sooner without our gallant efforts. And even if we choose to work on, can *Gonoshasthaya Kendra* last in its present form? How viable can a body remain when it is alien to this system in which it operates? These are questions may be others can help us answer. An example which proves very strongly that preaching 'people's participation' and their involvement in development is quite easy, but for those personnel who help to put it into practice the task is almost impossible".

An Assessment

The *Gonoshasthaya Kendra* project has received funds from outside sponsors, but depends partly on local financial support, and it hopes to ultimately become totally dependent on local income.

Some funds have been spent on unnecessarily grandiose buildings (at the wish of the sponsors). The funds received from outside have mainly been used for setting up the centre; while the actual village community development work being undertaken is largely self funded.

Intended initially to be only a health care service in a typical rural area, it was soon realised that in response to the real needs encountered in the course of medical work that the project must supplement its health work with programmes in family planning, agriculture, nutrition and education and vocational training. More important is that the original team that came into Savar to set up the project in 1972 found the need to absorb into the staff of the project (especially as paramedics) the people from this area; and therefore, co-operation has been sought and received readily from people of all levels in the local community. As a result of this close relationship between the project and the local community there has been all along an interchange of ideas; the project staff listen as well as speak. Thus the aims and methods of the project are subject to constant revision.

A final judgement of this project cannot be made at this stage as it is still in the process of creation. But it has evoked a favourable response among other projects in various other parts of the country. The mere fact that local women, locally trained, are successfully performing tubal ligations and other skilled work, indicates clearly the potential of ordinary local people as opposed to "qualified specialists", for solving local problems, if only they are given the opportunity to be active participants in the development process.

The entire programme has brought into focus one definite lesson and that is before one can find and prescribe a solution to a problem one should understand the problem fully; if not one might find oneself fighting the symptoms rather than the causes of a problem. People involved in rural development work should not only try to understand the local situation with its economic, political and social structures (the micro situation) but also the connections of this situation with the macro situation, the power structures at the national and international level. The micro and the macro situation, one would find are intricately bound together. One must be able to see and comprehend these links and connections for in such links may also be found the causes of as well as the solutions to poverty. Those behind the *Gonoshasthaya Kendra* project of Bangladesh have shown a keen awareness of these links and it is perhaps this which accounts a great deal for their achievements.

District Credit Planning

J. D. Mohile

Incentive packages for the development of backward areas and specific area development schemes have been discussed and carried out in various forms in Sri Lanka, though not with much success. There are again several such proposals and projects before the Government and in this context India's experience can prove useful. Several such integrated projects for the backward areas have been implemented successfully in India and the State Bank of India has also launched on a scheme that serves the basic needs of such projects. J. D. Mohile, the State Bank's Deputy Chief Officer, Economic & Statistics Research Department in this article in the *Review* discusses the rationale and need for channelling resources of the banking system to various sectors and regions on the basis of well conceived plans; and the possibility of implementing such schemes if a sincere effort is made by all participating agencies.

For getting quick and optimum results from planned investments, the initial developmental efforts in a developing country are likely to be concentrated in areas having the necessary infrastructure base. Even in India, a somewhat similar phenomenon has occurred.

Genesis of the Problem

During the British rule, economic development in India concentrated mainly in the presidency towns to which the rest of India served as an hinterland. Extreme inter and intra-regional disparity in economic growth was one of the many legacies of the British rule in India. Even after Independence, for the reason stated at the outset, the tendency continued for quite sometime. In the Chapter on 'Approach and Policy' in India's Fourth Five Year Plan, the planning Commission noted:

"In terms of regional development, there has been a natural tendency for new enterprises and investments to gravitate towards the already developed metropolitan areas because they are better endowed with economic and social infrastructure. Not enough has been done to restrain this process. While a certain measure of dispersal has been achieved, a much larger effort is necessary to bring about greater dispersal of industrial activity".

The approach paper to the Fifth Five Year Plan also noted that in spite of the achievement of an overall growth in the country during the preceding four Five Year Plans and three Annual Plans, the benefits of this growth had not filtered down to large parts of the country. The paper, therefore, emphasised the urgent need for taking steps to remove these regional imbalances as soon as possible. As we shall see in the following paragraphs, district credit planning is one such step, which can help canalise the developmental efforts to remove regional disparities.

It is common knowledge that credit is an important and necessary input in any developmental process. And because till recently developmental efforts were mainly concentrated in metropolitan and urban areas, institutional credit also mainly flowed in these areas. The Gadgil Study Group of the National Credit Council observed in 1969, that the spread of institutional credit was uneven in different parts of India, that the branch network and credit disbursal were concentrated in metropolitan and urban areas, while large pockets of the country had very sparse coverage in these respects. Apart from regional imbalances in credit disbursal, the Group also observed sectoral imbalances in the matter of credit extension. It noted that the credit needs of farmers, small scale industries and weaker sections of the society in general, did not receive adequate attention from commercial banks. It was to correct these regional and sectoral imbalances in credit disbursal that the concept of the Lead Bank Scheme was evolved in December 1969. Under the Scheme, all the districts in the country except a few Metropolitan cities and Union territories were allotted to the 22 public sector banks and three private sector banks, which were called Lead Banks.

Strategy Evolved

Though under the Lead Bank Scheme the lead banks were asked to adopt an 'area approach', to was not quite clear at that time how they were to go about it and it is through some experimentation that the lead banks arrived at the concept of district credit planning in July 1972. To start with, the lead banks had identified growth centres for opening bank offices and prepared district survey reports for their lead districts. The district survey reports were quite informative and contained a wealth of data about the physiographic, agro-climatic and socio-economic conditions of the districts.

However, the reports did not contain specific development schemes which could be straightaway financed by the commercial banks and other financial agencies. As such, some lead banks started undertaking depth studies of small compact areas such as community development blocks in their lead districts with a view to preparing action plans which could be immediately implemented by them. However, at the behest of the Regional Consultative Committee for the Central Area, they decided in July 1972 to prepare district credit plans instead of the action plans for the blocks.

The credit plans prepared by the lead banks contain development schemes in the various sectors of the economy, which can be financed by the commercial and co-operative banks and other financial agencies operating in the districts concerned. The schemes are evolved on the basis of study of the agro-climatic and physiographic conditions of the area, available natural resources and felt-needs of the local people. Development plans of the Government and other agencies are also taken into account while formulating the schemes. It is ensured that the schemes contained in the credit plans are technically feasible and economically viable. The credit plans, inter alia, give estimates of the physical programmes and financial and credit outlays in respect of the various schemes and projects that are included in them. Wherever possible, suitable locations of the projects and areas where the schemes can be profitably implemented are also indicated.

Rationale for the Strategy

The credit plans prepared by the lead banks are now in the process of implementation. They are yet to have any dent on the local economies. But, in due course, they are likely to yield the following benefits:

(i) The district credit plans include development schemes based on careful study of the natural resources and felt needs of the areas. The technical feasibility and economic viability of the schemes are duly established. The financing of these schemes is, therefore, likely to yield optimum results.

(ii) While preparing the credit plan, it is ensured that the various schemes are integrated in nature, i.e., the backward and forward linkages of these schemes are considered and provided for. For example, if a large scale agricultural development programme is proposed, measures for providing fertilisers, seeds etc., on the one hand, and facilities for storage, marketing and transportation or produce on the other are also recommended.

(iii) Schemes which can be implemented within the existing infrastructure and/or which require only marginal strengthening thereof are included in the credit plans. Marginal infrastructure and other facilities necessary for the purpose are estimated. As such, the Government can take suitable steps to ensure that problems do not arise at the implementation stage.

(iv) It has been observed that backward districts in general do not have much inherent credit absorption capacity. Therefore, at present there is not much demand for credit from these districts. That is one of the reasons why the credit-deposit ratio in the backward regions is very low at present. However, if credit plans are prepared for backward districts, they will contain bankable schemes covering all the sectors of the economy, based on the study of natural resources and felt needs of the local people. The credit plans will thus help to induce credit absorption capacity in the backward districts and will help break the vicious circle of "no demand for credit, consequently, no extension of credit, and therefore, no development and therefore, again no demand for credit".

(v) If credit plans are prepared for all the districts in the country, they will help reduce the inter-district imbalances because the hitherto neglected and backward districts will also start progressing.

(vi) The schemes included in the district credit plans are expected to benefit all the areas, rural as well as urban, of the district. Locations of various schemes and projects included in the credit plans are carefully selected so as to yield maximum returns, as also to benefit as large an area as possible. Therefore, credit plans will help reduce disparities between various areas within the district, i.e., intra-district disparities. Thus, the preparation of credit plans is useful even from the point of view of developed districts.

(vii) As the schemes included in credit plans cover all the sectors of the economy, district credit plans will help channel credit to the various sectors according to their need and thus reduce sectoral disparities.

(viii) Last, though not the least, the investment directed to increase the credit absorption capacity of the backward regions will have the effect of drawing into the process of production the hitherto unexploited and under-exploited productive resources of the region. This will obviously go a long way in accelerating the rate of growth in the economy of the country as a whole.

It will be seen from the above discussion that it would be in the larger interest of the country if the resources of the banking system are channelled to the various sectors and regions on the basis of well-conceived district credit plans. The preparation of the credit plans no doubt presents some methodological and other problems. There are also a number of problems in implementing these plans but they can be overcome if sincere efforts are made by all the participating agencies.

An International Rubber Agreement Key to Price Stabilization

Cyril Gamage

The need for price stabilization in the export commodities of the developing countries has been an important subject of discussion and international action over the last decade. Signs of major agreements now appear to be in sight for a few such commodities, with rubber about the nearest. Cyril Gamage, Senior Asst. Secretary of the Ministry of Plantation Industries, discusses here the potential and connected issues in such an agreement.

The prospect for an international agreement to stabilize rubber prices appear brighter than ever before. The United Nations Conference on Trade and Development (UNCTAD), one of the foremost and significant organs of the UN. whose particular concern is to help developing countries expand their trade and thereby obtain increasing resources essential for their self-sustained growth, is hopeful of very soon achieving one of the goals it has worked towards over the last few years. The stabilization of prices seems in sight for this commodity, which can go a long way to strengthen the economic situation of many countries of the Asian region. There appears to be a very strong chance of clearing all ground for price stabilisation in the field of Rubber at the forthcoming UNCTAD meeting to be held in Geneva later this year.

How did the need to stabilize prices arise in Rubber? What factors and circumstances conditioned the demand for developing countries to bid for a Commodity Agreement in Rubber? What are the ingredients of the Commodity Agreement that are likely to emerge at the meeting of the UNCTAD?

The answer to these questions must necessarily be found in the vicissitudes and fluctuations that the rubber market has faced from its inception. The Rubber Industry is a 19th century creation which grew mainly from the invention of the masticator and the vulcanization process; and the need to open up plantations in the colonised countries to supply the raw material requirements of the industrialised world. While rubber which grew in Brazil and Africa gave way to a more methodical plantation in Asia, in countries such as Sri Lanka and Malaysia the early 20th century saw the further growth of natural rubber plantations; modernization of the industries based on rubber in the U.S.A. and Western Europe; and the growing results of research in rubber production. These were some of the factors which encouraged this growth.

The unique position that natural rubber held in the world market was challenged by synthetic rubber after World War II. The U.S. Government launched a massive programme for synthetic rubber production and in 1945, the U.S. produced as much as one million tons of synthetic rubber for a year. The expansion of synthetic rubber continued unabated, reducing the share of natural rubber in the world today to as little as 31 percent.

What is the pattern that emerges from the focal positions of natural rubber and synthetic rubber in the World today? Japan, U.S.A. and the European countries account for 75 percent of the world production of synthetic rubber. Further, the synthetic rubber market is oligopolistic in nature with multinational corporations and firms dominating the scene. As far as price competition for synthetic rubber is concerned the competition is limited to a few large combines who produce synthetic rubber.

In the natural rubber growing areas production on the other hand is concentrated largely in Asian countries. Malaysia, Indonesia and Thailand account for over 80 percent of the world production of natural rubber. Sri Lanka's contribution is less than 5 percent of this production. Though it originally developed as an estate type crop, natural rubber later became a smallholders' crop — 100 % in Thailand, 80% in Indonesia, 85% in Malaysia and 53% in Sri Lanka, of the rubber production (taking 40 hectares as the cut-off point) remains in the hands of smallholders. So that in comparison with synthetic rubber, natural rubber is largely in the hands of small holders and consists of small units. It has been calculated that there are more than one million of such small units in the natural rubber industry; whereas in synthetic rubber production it is controlled by a few more than 100 firms. Parenthetically it may be asked:— Is the smallholders system of production in any way inferior to and less effective than the estate ownership production? The following quotation from P. W. Allen — (Natural Rubber and Synthetics) shows the versatility of natural rubber in both estates and small holding operations. "There is no question of rubber being better produced by estates than by smallholdings or vice-versa. Both sectors have their distinctive attributes and both are capable of producing rubber economically while providing their owners with fair returns. Estates because of their size and organisation tend to be the innovators, risk-takers and trend setters; they posses the appropriate managerial skill and may be able to take some advantage of economies of scale (though these economies are nowhere near as prominent as the case with the synthetics). Smallholdings, especially when of adequate size, and when provided with proper support (advice plus perhaps central processing and marketing facilities) can make a vital contribution to the national well being".

How has natural rubber and synthetic rubber fared in the game of competition? The rapid expansion of modernization in Western Europe and Japan as well as in the other areas of the world in the 1950s and 1960s created a demand for elastomers; this demand increased at more than 8 percent per annum and was unable to be satisfied by natural rubber production which during the same period was increasing at less than 3 percent per annum. This gap was filled by synthetic rubber which grew at about 9 per cent per annum. Natural rubber has thus been steadily losing ground to the synthetic version in the international rubber market.

The natural rubber industry was obviously under great pressure. It was shrinking, but it showed its elasticity (like rubber

WORLD PRODUCTION OF NATURAL RUBBER

(in metric tons)

	1960	1976
Malaysia	872,037	1,639,000
Indonesia	738,875	847,500*
Thailand	207,536	392,405
Sri Lanka	131,015	152,134
Vietnam	48,641	32,500*
Cambodia	51,330	20,000*
India	52,195	147,758
China	——	25,000*
African Continent	176,928	203,353*
Brazil	24,347	20,395
Other S. America	7,000*	17,000*
World	2,332,500	3,560,000

Asterik indicates estimated figure.

Source: *International Rubber Study Group*

itself) in different ways. Research into high yielding varieties of trees and replanting continued on an accelerated scale in certain key producing countries in Asia, such as Malaysia and Thailand. The natural rubber industry moulded itself to the changing requirements of the market by introducing technically specified block rubber which provided savings in transportation, handling and storage. Another technical innovation in the 1970s, of high significance to natural rubber, was the use of chemical stimulants to increase the yields; which was really the result of long years of research on the use of natural stimulants for the same purpose.

Trade and Price Trends

There are a few distinctive characteristics of natural rubber in world trade circles which are useful to bear in mind in any attempt to understand moves to stabilize prices. Rubber is a typical export commodity. 90 percent of natural rubber is exported, whereas only 25 percent of synthetic rubber is exported. Sri Lanka's exports incidentally account for only 4.5 percent of the export market. In the post-war period Malaysia and Thailand — the chief Asian exporters — increased their export share at the expense of Indonesia and Sri Lanka, while Asia on the whole produced 84 percent of the total natural rubber in the world.

The second characteristic of the rubber trade is that the main importers of natural rubber are the developed countries. This is yet another example perhaps of the dependency relationship of developing countries on developed countries, according to the theory of dependency. The increasing consumption of synthetic rubber to the detriment of natural rubber by the developed countries is clearly seen in the sharp drop of natural rubber consumption by 15 percent during the 20 year period from 1956-57 to 1972-74.

In more recent times, however, particularly after World War II, natural rubber enjoyed two boom periods — one due to the Korean War and the other due to the oil crisis. The oil crisis imposed critical constraints on the production of synthetic rubber which depended heavily on oil for its processing and manufacture. The quadrupling of crude oil prices resulted in the doubling of costs of synthetic rubber production between 1973 and 1975. These 'events' had the effect of changing substantially, the predominant position held by synthetic rubber in the world market, which was upto then playing the role of price trend-setter.

This raises the most sensitive question for natural rubber producing countries such as Sri Lanka. What is the future for natural rubber? A study of the types of rubber utilized in manufacturing various products in the tyre-related and non tyre-related areas (which incidentally provides a broad differentiation of use) indicates that there are a multiplicity of factors which determine the use of various types of rubber — factors which are technical as well as non-technical. In the non-technical field political factors which take into consideration self-sufficiency and security reasons, play as important a part as technical factors or even more.

There are, however, certain factors which favour the natural rubber industry at the moment, apart from the boost that natural rubber received from the two 'events' referred to above. There are certain circumstances facing synthetic rubber which are in favour of natural rubber. For instance, the availability and price of chemical feedstocks and the growing pressures against pollution of the environment, concern caused by health hazards through long exposure of workers to chemical products such as benzene which is now being investigated by the U.S. Government are some of them. On the other hand, natural rubber is reaping the benefits of long-term research and technical innovation in production and processing. For instance, the biologically based cis-polyisoprene has been proved to be technically and economically superior to its synthetic counterpart.

International Action

The action now being taken on a multilateral scale to establish a world-wide price stabilization scheme, that would be beneficial both to producers and consumers, is one of the most fruitful and meaningful measures taken in recent times to ensure fair market prices for commodities. The producer-consumer consultations which have begun in the context of UNCTAD'S Integrated Programme for Commodities and the Agreement among the producers which is being worked out by the Association of Natural Rubber Producing Countries (ANRPC), which incidentally held one of its sittings in Colombo in April this year, have prepared the ground for a significant break-through in the attempt to stabilize prices for rubber. The ANRPC is in fact the child of the tumultuous situation created by declining prices in natural rubber. In 1967, natural rubber producing countries met in Kuala Lumpur for the first time to decide on the need for co-operation among the producing countries in the marketing of natural rubber. It is noteworthy that within a short period of less than a year, UNCTAD held six meetings on this subject.

An International Rubber Agreement on prices could briefly take the form of building a Buffer Stock with contributions from the natural rubber producing countries as well as consumer countries, as it is an agreement that is intended to safeguard the interests of both parties. The Agreement will decide on the quantum of contribution from each country and also the location of stocks. It will also provide for an Administrative Account to meet the costs of administering the Buffer Stock, while stipulating the basis of vote-entitlement of members to the Agreement and the mode of liquidating the stocks if necessary. The producing countries discussed a draft of the Agreement prepared by the UNCTAD in Colombo in April this year and have thereafter come up with a revised version of the draft at the meeting of the Inter-Governmental Task Force which was held later in Kuala Lumpur. There are obviously a few areas on which the natural rubber producing countries have to agree and the forthcoming UNCTAD Preparatory Meeting in August would hopefully provide a forum for this.

Price stabilization alone however is not a panacea for the problems of natural rubber producing countries. There is much to be done in expanding rubber production if the future demand for rubber is to be met by the natural rubber producing countries. This underlines the need to adopt a dynamic rubber production programme — a need that has been already realised as one of the essential strategies by member countries of the ANRPC. The development of the smallholder is a most crucial point in the plan of development and in this regard there is a whole range of activities that are possible from the adoption of technical innovation and provision of adequate incentives such as subsidies to economic consolidation of holdings and strengthening extension work and the establishment of a Rubber Industry Smallholders Authority as has been done in Malaysia.

In this entire spectrum of activities, however, the stabilization of international prices for rubber plays a key and critical role. The forthcoming meeting of the UNCTAD, to be held towards the end of August this year would be considered yet another milestone on the road to an International Agreement on a commodity that would spell out not only an assured income to millions of smallholders in Asia but could stabilize the flow of foreign exchange particularly for a country like Sri Lanka which gets as much as 20 per cent of its foreign exchange earnings from this commodity.

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