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**Chairman: Mr. Ernest G. CHAUVET (Haiti).**

**AGENDA ITEM 24**

**Economic development of under-developed countries (A/2955) (continued):**

**(a) Question of the establishment of a Special United Nations Fund for Economic Development: report submitted in accordance with resolution 822 (IX) of 11 December 1954 (A/2906, A/C.2/186, A/C.2/L.271) (continued)**

1. Mr. DESMARAS LUZURIAGA (Argentina) appreciated the importance of the part which the International Bank for Reconstruction and Development, the Technical Assistance Board (TAB), the International Finance Corporation (IFC) and the Special United Nations Fund for Economic Development (SUNFED) were destined to play in the economic development of the under-developed countries; but financial assistance was not the only problem in the economic development of those countries.

2. Another point to be borne in mind was the instability of the income of countries exporting basic commodities, especially where their economies were dependent on a single export product. Price fluctuations and variations in the volume of international trade could have disastrous effects on the economies of such countries.

3. No doubt foreign savings played an important auxiliary role, nevertheless it was essential to assist in building up adequate domestic savings in the under-developed countries. That meant studying the market structure and method of operation with a view to the ultimate adoption of a programme which would make it possible to stabilize international trade in basic commodities.

4. The Argentine delegation was of the opinion that the Special Fund could make a decisive contribution to the solution of those problems. It did not doubt that the industrialized countries were convinced of the necessity for setting up such a body, but appreciated the reasons which were leading them to delay its establishment. It was to be hoped, nevertheless, that the programme outlined by Mr. Scheyven could be launched

in the near future and that the text of a resolution could be drawn up which would have the unanimous support of the Committee.

5. Mr. NEBOT (Ecuador) said that the under-developed countries were constantly at pains to improve the economic-social infrastructure on which their system of production must be based; but they had to face a great many difficulties, the chief of them being lack of capital.

6. It had been suggested that capital should be raised by savings. But in most of the under-developed countries, domestic savings were at a very low level precisely for the reason that the national resources of those countries were also at a low level. They were in fact caught in a vicious circle.

7. Under-developed countries could not raise the funds necessary for economic development by monetary measures. Inflation and a permanent budgetary deficit were notoriously bad for any economy.

8. Private foreign investments were extremely meagre in Latin America, in relation to the needs of the region. At the present time, they amounted to an average of \$421 million a year, as against \$2,240 million in the nineteenth century; and most of the capital represented profits on previous investments, that is, strictly speaking it constituted reinvestment.

9. Ecuador fully appreciated the assistance given by the Bank and the Export-Import Bank, and trusted that the IFC just set up would soon be in full operation; nevertheless, unless a special fund with considerable resources materialized, there could be no real economic development.

10. In the view of his delegation, the Special Fund should not make grants, but should provide loans repayable in local currencies on the basis of an accurate assessment of the debt-carrying capacity of each country.

11. With regard to the structure of the Special Fund, the delegation of Ecuador agreed that everything should be done to avoid the creation of a new international bureaucracy.

12. An initial capital of \$250 million would, of course, be insufficient to carry out the proposed operations completely; but that amount was only intended to set the Special Fund in motion, and the question could be taken up again later.

13. The solemn undertaking entered into by the United Nations in adopting General Assembly resolution 724 A (VIII) was certainly most laudable, but the progress made in the direction of world-wide disarmament was practically negligible and the delegation of Ecuador saw no need to wait until disarmament became a reality before setting up the Special Fund.

14. Action must be taken without delay. A situation in which a third of the world's population possessed

85 per cent of the world's income while the other two-thirds possessed only 15 per cent was quite unjustifiable. Such disparities in the distribution of wealth were the main cause of the economic disequilibrium which was at the root of social unrest and political insecurity.

15. The Governments of the industrialized countries must bring home to public opinion the fact that the longer the solution was put off, the worse the situation would become. As far as the Governments of the under-developed countries were concerned, they were resolved to do their utmost to eradicate poverty and the deplorable state of want in which hundreds of millions of human beings were living.

16. Mr. BANNIER (Netherlands) spoke of his Government's keen interest in the development of the under-developed countries, and of its constant efforts to secure the financing of that development by multilateral action within the framework of the United Nations. At the ninth session of the General Assembly (295th meeting), the Netherlands delegation had given the basic reasons for its conviction that an immediate start should be made on a project like the Special Fund and it had stated repeatedly that the Netherlands Government was prepared to contribute to it from the outset. Although the Special Fund did not seem likely to see the light of day in the near future, the Netherlands Government had not changed its position. It was still prepared to ask parliamentary approval for a contribution of about \$8 million and to reconsider the size of the contribution if, as was desirable, it were decided to increase the capital of the Special Fund.

17. The question of establishing the Special Fund had made slow progress. But Economic and Social Council resolution 583 A (XX) was certainly a step in the right direction. The draft resolution submitted by the thirty-two Powers embodied the essential recommendations of that resolution, and his delegation felt that if the General Assembly did not accept that proposal, it would lay itself open to the reproach of not striving earnestly to solve the problem of financing the economic development of the under-developed countries. The Netherlands Government was prepared to give detailed and constructive replies to the questionnaire. It had already had occasion to put forward its views on the report of the Committee of Nine (E/2381). Those views were still the same, but in the meantime he would like to make a few observations on the new recommendations in the report of Mr. Scheyven and the Committee of Experts (A/2906).

18. First of all, with regard to the capital needed before the Special Fund started operations, the Netherlands delegation agreed with the Committee of Experts that it should not be appreciably less than \$250 million. At the same time, it was not absolutely essential to wait until that amount had been collected before setting up the Special Fund. Presumably its activities would be on a relatively small scale for the first year or two, as was the case with technical assistance; and in view of the multiplier role it was expected to play, it would probably not require that amount of capital to make a useful start. Accordingly, his delegation was ready to discuss the size of the initial capital, provided other countries, too, were prepared to pledge reasonable contributions.

19. Secondly, with regard to the period for which the Special Fund was to be established, the Netherlands delegation supported Mr. Scheyven's suggestion that the General Assembly might have an opportunity of amending the structure of the Special Fund at the end of five years if it felt called upon to do so. It was questionable, however, whether it would be wise to specify a definite period. The Netherlands would prefer to see the Special Fund set up for an indefinite period, with the proviso that after a certain number of years the statute could be reviewed.

20. Thirdly, it was difficult to say at the present juncture exactly what the structure of the Special Fund would be and how it would be related to the other existing institutions. There was no doubt whatever of the importance of giving the Special Fund the benefit of the experience accumulated by all the various bodies already contributing to economic development. Accordingly, there should be close co-operation between the Special Fund on the one hand, and the Bank and agencies concerned with technical assistance on the other. But his delegation had misgivings as to the wisdom of amalgamating or linking the Special Fund too exclusively with any existing agency or with TAB. While the establishment of a new international bureaucracy with a huge staff must certainly be avoided, it must not be forgotten that the Special Fund would have a new and special task to perform, which might call for a separate organizational structure with all the necessary administrative services.

21. With regard to the suggestions made regarding a combination of loans from the Bank and grants from the Special Fund and regarding the composition of the Joint Committee, the Netherlands delegation would certainly examine them with an open mind. As to the utilization of the Special Fund's resources, that raised highly technical matters, and he would merely repeat what the Netherlands delegation had said with reference to the report of the Committee of Nine: grants were preferable to "fuzzy" loans, and if the Special Fund's activities were to be confined essentially to making loans, a clear division must be established and maintained between the respective responsibilities of the Special Fund and the Bank.

22. Referring to some of the remarks made during the debate, he noted that the representatives of the industrialized countries had pointed out that, while their Governments recognized the necessity for promoting the economic development of the under-developed countries, they could not pledge contributions to the Special Fund until agreement had been reached on world-wide disarmament; and they had pointed to their costly international responsibilities. His delegation did not by any means belittle the importance of those responsibilities. But the Netherlands, too, had its responsibilities, not merely in connexion with collective defence, but with aid to refugees, technical assistance, et cetera. Nevertheless, his Government regarded it as vital to place multilateral financial assistance to the under-developed countries on a stronger foundation, and was ready to do all that was necessary to bring that about.

23. It had been recognized that the sponsors of the draft resolution (A/C.2/L.271) had shown restraint and understanding of the difficulties which certain countries were experiencing. They had, of course, been anxious to rally the greatest possible measure of sup-

port for their proposal. In that connexion, he welcomed the statement by the United States representative to the effect that his Government was prepared to consider any suggestions designed to assist the orderly exploration by the United Nations of the various ideas relating to the proposed Special Fund, which might be useful when the Special Fund became a practical possibility. Such an orderly exploration was precisely what the sponsors of the draft resolution recommended. The United States representative had gone on to say that Governments would have ample time to draw up a charter for the Special Fund when its creation became a practical possibility. But that could only be done if all the necessary materials were available, that is, not merely the views of independent experts, but the views of Governments as well. After all, the responsibility for setting up the Special Fund would rest with Governments. The specific purpose of the proposed *ad hoc* committee was to enable Governments to explain their views. The Netherlands delegation, accordingly, hoped that the Committee would adopt paragraph 4 of the operative part of the joint draft resolution.

24. He urged the industrialized countries to reconsider their position so that countries anxious to participate in the Special Fund, but making their participation conditional on that of the industrialized countries, could indicate the amount of their contributions. As for those who were still reluctant to commit themselves until they knew what the precise structure and function of the Special Fund would be, the draft resolution, if it were adopted, would provide them with all the data they needed to help them to make up their minds.

25. In conclusion, he added his voice to the appeal made by Mr. Scheyven (366th meeting) and by Mr. de Gaay Fortman, the representative of the Netherlands (369th meeting); he trusted that the hopes placed in the United Nations by the under-developed countries would not be disappointed.

26. The CHAIRMAN gave the floor to Mr. Scheyven.

27. Mr. SCHEYVEN (Special Rapporteur) explained at the outset that he was speaking in a personal capacity only. He thanked the speakers who had elucidated the topic by their comments.

28. The second report on the Special Fund (A/2906) had been prepared in a spirit of realism with the three considerations mentioned in paragraph 6 in mind. In the first place, the structure and methods of financing should be the best possible, in the interests of the under-developed countries. Secondly, it was important to have regard to existing international agencies, especially the Bank, which being a financial body might conceivably have objections to make; it had to place its bonds on the international market and it was necessary to ensure that the whole of its work was not undermined by the activities of the Special Fund. Thirdly, the countries which had to be convinced were the main industrialized countries. The United States and the United Kingdom had been in an awkward position during the debate, as they had been obliged to say no, even though along with Australia, Canada and New Zealand, they had time and time again given proof of their generosity towards the under-developed countries. It was the great Powers which had still to be convinced. Accordingly, the present task was to convince them, and to deal with the objections they still maintained against the establishment of the Special

Fund. Accordingly, although he personally, and most of the Committee of Experts with him, considered that the major contributor countries should have equal representation with the rest on the Executive Board, in order to meet the wishes of the United Kingdom and the United States they had put forward an alternative formula in the third sub-paragraph of paragraph 54 of the report.

29. The direct contacts he had had, for example, in Washington, with politicians and private individuals had given him the impression that the idea of the Special Fund was gaining ground. No doubt the easing of international tension and the greater realization of the needs of the under-developed countries were largely responsible, but he ventured to think that the new report on the Special Fund had also played a part in creating a more favourable atmosphere. The proposals embodied in the report, while they still left room for improvement, had been found sufficiently realistic to warrant discussion.

30. Referring to certain comments made by delegations on chapters IV and VI, he said that to take account of those comments would mean a radical change in the conclusions of the report.

31. On the question of financing the development of the under-developed countries, the report put forward three methods, and in his own statement (A/C.2/187), he had mentioned three other methods suggested to him at the twentieth session of the Economic and Social Council. The Special Fund's operations should mainly take the form of grants-in-aid, and by "mainly" he meant that three-fifths or four-fifths of all the Special Fund's resources would be utilized for that purpose. He did not agree with the Chinese representative that the Special Fund's purpose would be mainly that of making loans. Nor did he agree with the Yugoslav representative's view that the Special Fund would use its resources essentially for combined grants and loans, and consequently would become a satellite of the Bank. That would not be the case, since the Special Fund would be mainly concerned with making grants-in-aid, and would take decisions itself in the majority of cases. He nevertheless thanked the Chinese representative for his suggestion that the Special Fund, like the Bank, should place its bonds on the international market so as to supplement its resources. Unfortunately, the idea would not work, as the Special Fund could not undertake obligations towards bondholders, when most of its resources would have to be used for making grants-in-aid.

32. With regard to low-interest loans, a point discussed particularly in paragraphs 34 and 35 of the report, he explained for the benefit of the Yugoslav representative that the Committee of Experts had been unanimously opposed, not to low-interest loans, but to long-term loans on indefinite terms, as proposed by the Committee of Nine. On the question of low-interest loans, the members of the Committee of Experts had been divided, as paragraph 35 indicated. He, personally, was against loans of that type; it was not a good plan for the Special Fund to compete with the Bank—and on that point he disagreed with the Soviet representative—since the competition would be unequal, as the Special Fund would be at a decided advantage; moreover, unfair competition of that kind might strain relations between the Special Fund and the Bank. For those various reasons, the report advocated transactions in such cases.

33. As to the question whether the Special Fund could engage in operations with credit institutions other than the Bank, he associated himself with the Yugoslav representative's remarks. He himself had wondered in the Committee of Experts whether, when all was said and done, the Special Fund would not find itself justifiably criticized for serving the interests of credit institutions by enabling them to lend at low rates, instead of assisting the under-developed countries. It might also be asked whether the Special Fund, by carrying on operations jointly with private credit institutions, might not compromise its position and incur the reproach of working with certain institutions rather than with others, and even find itself associated with private institutions of questionable financial soundness. The only reason why he personally had in the end come down on the side of participation by private credit institutions was that that arrangement would make the Special Fund more independent of the Bank. One thing was certain, however, that the private institutions with which the Special Fund was to work must be chosen with the utmost care.

34. He noted that the idea of loans repayable in local currency was acceptable to the members of the Second Committee. Incidentally, three other forms of loans had been proposed to the Bank, and he had mentioned its reply in his recent statement to the Committee. He, personally, was not convinced by all the arguments put forward in the Bank's reply. He felt that the proposals in question should be regarded as possible solutions, if not at once, at any rate at a later stage; and it might be useful to discuss them thoroughly with the directors of the Bank, in the hope that further understanding could be achieved. His conclusion in general was that if the statute of the Special Fund were prepared in the near future, care must be taken not to define the financing methods too rigidly, since what seemed revolutionary today might be regarded as quite normal tomorrow.

35. Turning to the question of the structure of the Special Fund, the Committee of Experts, in conformity with the desires of all countries, including the under-developed countries, had been anxious to avoid creating a new international bureaucracy. The Yugoslav representative had gained the impression from the report that the Special Fund would be more or less completely integrated with the Bank. That was not what the authors of the report had intended; they had in fact decided that the statutes of the Special Fund and of the IFC should not be the same. The Executive Board of the Special Fund was separate from that of the Bank and would perform a real function; it was to enable it to perform that function that the report provided for experts (representing the Secretary-General, the Bank, the International Monetary Fund, TAB, and possibly the specialized agencies) to be invited to attend its meetings. A Joint Committee would be set up. The Director-General of the Special Fund would not be an official either of the Bank or of any other international organization, and he would be appointed by the Executive Board; lastly, the Special Fund would have its headquarters in New York and not in Washington. It should be noted, however, that there would be a close connexion between the Bank and the Special Fund, since the President of the Bank would sit on the Executive Board and on the Joint Committee. On that point, the Egyptian representative's fears that the President of the Bank might have

an unduly important say in the Joint Committee was somewhat surprising. There were no grounds for such an assumption; the President of the Bank would not be alone on the Joint Committee; the Secretary-General of the United Nations and the Director-General of the Special Fund would also be members. The presence of the President of the Bank on the Joint Committee seemed to him essential, since the Bank and the Special Fund would have to work together on financing the development of the under-developed countries. On the other hand, the Egyptian representative had made a good point (367th meeting) in arguing that the Director-General of the Special Fund would be in an inferior position vis-à-vis the President of the Bank, since he would be appointed with the approval of the latter, and proposing that the Director-General should be appointed exclusively by the Executive Board.

36. With regard to the relationship between the Special Fund and TAB, he explained in reply to a criticism by the Yugoslav representative that the authors of the report had contemplated the possibility of countries applying to the Special Fund either direct or through the Bank, a specialized agency, or TAB. In his own opinion, it would be premature at the present time to fuse the activities of TAB and those of the Special Fund. Incidentally, the draft statute had received the approval of the specialized agencies.

37. On the question of the sum which the Special Fund should have at its disposal before beginning operations, he had already stated that in the interests of world peace it would be a wise move to assist the under-developed countries before rather than after disarmament became a reality. The representatives of the Netherlands and Colombia had spoken of the multiplier effect which the \$250 million of the Special Fund would undoubtedly have. He himself had pointed out that preparatory work would have to be done before any appreciable part of the savings from controlled disarmament could usefully be applied to the development of the under-developed countries. The Special Fund could carry out that preparatory work on the strength of the \$250 million. At the moment, the question was whether such a sum was too high for the industrialized countries and whether it was enough to enable the Special Fund to play an important role in the under-developed countries. His reply to the first question was no; he realized that the great Powers had heavy military burdens to bear, but to take the case of Belgium, he thought he could safely say without committing the Belgian Government, that it could afford the \$6 million or so which it would have to contribute to the Special Fund on the basis of its participation in the Bank or the International Monetary Fund. In reply to the second question, if the \$250 million were renewed for four years, the assistance furnished by the Special Fund to the under-developed countries would amount to \$1,000 million. Actually, that was more or less the amount which the Bank had so far paid out and there was no denying that it had done a very useful job, though admittedly the nature of the operations of the two bodies was different. The Special Fund was a condition of the success of technical assistance. He noted that the President of the Bank himself recognized the tremendous difficulties which the under-developed countries would have to overcome in regard to their balance of payments if all the external aid required for their economic development took the form of ordinary loans; he would remind the

Committee that the President of the Bank had expressed the view that even small sums, if judiciously used, could do wonders.

38. In conclusion, he thanked the delegations for their expressions of appreciation. He, personally, had found the accomplishment of the great task entrusted

to him sufficient reward for his efforts. His own thanks were due mainly to his colleagues and to the Secretariat. He appealed to the members of the Committee to adopt unanimously the draft resolution before it.

The meeting rose at 5.30 p.m.