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DEVELOPMENT AND INTERNATIONAL ECONOMIC CO-OPERATION

Suggestions to overcome the critical economic situation of many  
developing countries

Note by the Secretary-General

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## I. INTRODUCTION

1. The General Assembly, in its resolution S-11/3 of 15 September 1980, noted with great interest the suggestions made by the Secretary-General in his address to the Economic and Social Council at its second regular session of 1980 for overcoming the critical economic situation of many developing countries and requested him to elaborate further his suggestions, in consultation with the concerned organizations of the United Nations system, and to submit them to the General Assembly at its thirty-fifth session. The present note, which was prepared in consultation with the United Nations Conference on Trade and Development, the International Monetary Fund and the World Bank, is in response to that request.

2. In his statement to the Economic and Social Council, the Secretary-General made three groups of suggestions which related to the following:

(a) Provision of more payments finance to meet the current balance-of-payments deficits of most developing countries;

(b) Launching of a special operation for low-income countries most seriously affected by the current economic crisis;

(c) Financing of more investment in energy in non-oil-exporting developing countries.

## II. FINANCING OF CURRENT BALANCE-OF-PAYMENTS DEFICITS OF MOST DEVELOPING COUNTRIES

3. In his statement to the Economic and Social Council, the Secretary-General pointed out that all oil-importing developing countries would need additional external resources to finance their current balance-of-payments deficits in the coming months. He suggested that the International Monetary Fund and the World Bank might be urged to take measures as soon as possible to enable increased assistance to be provided to those countries. In his view, such assistance would need to be granted on terms adapted to a process of adjustment that would inevitably be spread over a period of time. The Secretary-General pointed to the need for measures to encourage the developing countries to utilize the Fund's facilities more intensively and at an earlier stage by making appropriate adjustments in the terms and conditions attached to the use of these facilities. He also suggested that the Fund's resources should be increased not only through the enlargement in quotas now in the process of ratification, but also through a loan issue. He suggested further that increased payments assistance might consist in rapid development of the World Bank's programme loans for facilitating structural adjustment.

4. The recent meetings of the IMF Interim Committee of Governors and the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (the Development Committee), held immediately before the Joint IMF/World Bank annual meetings, provided the members of these institutions with the occasion to deal with the issues addressed by the Secretary-General.

5. With regard to the central question of the provision of more payments finance, the Fund has advised the Secretariat that the present position is as follows:

"... in view of the more protracted nature and the size of the imbalances in prospect for many member countries, the Executive Board of the Fund has agreed that the Fund should play a larger role in financing these imbalances while maintaining an adequate emphasis on the correction of balance-of-payments problems over a reasonable period. The Fund has consequently decided that when a member is adopting sound demand and supply management policies, it will support programmes that stretch adjustment over longer periods and lend larger amounts than in the past. ... the Interim Committee at its meeting on 28 September 1980 endorsed the Executive Board's conclusion that, in keeping with the Fund objectives, amounts up to a total of 200 per cent of a member's quota (excluding uses under the compensatory and buffer stock financing facilities), or a total of 600 per cent over a three-year period, would be a reasonable guideline for the use of Fund resources in present circumstances."

6. There were other related policy initiatives considered by the Interim Committee at its meeting in September. These included:

(a) Necessary arrangements to enable the Fund to borrow from various potential sources of financing, not excluding a possible recourse to the private markets if this were indispensable;

(b) Establishment of a Subsidy Account to reduce the cost to low-income member countries of the use of the Fund's resources under the Supplementary Financing Facility;

(c) Suggestions by the Food and Agriculture Organization of the United Nations and the World Food Council to provide temporary assistance to low-income countries adversely affected by crop failures or increases in world prices of food.

7. In addition to these policy measures which could have a bearing on the resources available to developing countries in 1981, the Interim Committee considered a number of issues of a longer-term character. These include the arrangements for the Eighth Review of Quotas, the magnitude of future SDR allocations, and a possible link between SDR allocations and development finance. 1/

8. The Bank's programme of structural adjustment also addresses itself to the present needs of the developing countries for longer-term finance geared to their balance-of-payments situation. The Bank has informed the Secretariat that its

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1/ For a fuller statement of current policy discussions in the IMF, see the letter from the Managing Director of the IMF to the Director-General for Development and International Economic Co-operation contained in Development and international economic co-operation. International monetary reform. Report of the Secretary-General. Addendum (A/35/465/Add.1).

"new policy of non-project lending for structural adjustment has the specific objective of helping countries reduce their current account deficit to more manageable proportions over the medium term by supporting programmes of adjustment that encompass specific policy, industrial, and other changes designed to strengthen their balance of payments, while maintaining their growth and developmental momentum. Such programmes are intended to be flexible and tailored to the needs of individual countries. It envisages the probability of multiyear programmes being worked out and supported by a succession of loans. Such programmes should have the added effect of encouraging the provision of similar assistance from other sources."

9. The need to expand this programme rapidly was recognized by the Development Committee which, in view of this factor and others, urged the Board of the Bank to explore promptly appropriate ways of expanding the lending capacity of the institution and also to consider ways in which lending in the next fiscal years could be expanded above present planned levels. To quote again from the Bank's communication:

"Lending for structural adjustment is expected to total between \$600 million and \$800 million in fiscal 1981. It was agreed that the Executive Directors would review, during the course of fiscal year 1981, the Bank's adjustment lending policy in the light of initial assessment of loans already approved and of possible changing circumstances in the world economy. In his address to the Annual Meeting of the Board of Governors on 30 September 1980, the Bank's President, Mr. Robert McNamara, said that such lending might amount to \$1,500 million in fiscal years 1982 or 1983, and in subsequent years to more."

10. These new measures by the Fund and the Bank mark important steps in adapting the policies of these institutions to the present requirements of the world economy and particularly of the developing countries. Despite this significant advance, however, it remains unclear whether the payments financing required by the developing countries in 1981 will be forthcoming. While confidence has generally been expressed about the capacity of the international financial system to respond to the payments situation of developing countries in 1980, there is considerable uncertainty about the pattern and magnitude of financing that is likely to be available to those countries next year. The dangers of continued rapid expansion of commercial indebtedness to countries with high debt servicing burdens and uncertain export prospects are evident to lenders and borrowers alike, and a rapid expansion in concessional assistance does not appear to be in the offing. It is therefore essential to move forward rapidly on all issues currently being considered by IMF and to accelerate consideration of those issues, such as the Eighth Review of Quotas and the possible link between SDR allocations and development finance, which at present hold promise of assisting developing countries only in the longer run. Moreover, the adequacy of the international policy response will have to be carefully monitored and reviewed in the light of the evolution of the world payments situation in 1981, and advance planning of possible further steps to be taken should be initiated.

III. SPECIAL OPERATION IN FAVOUR OF LOW-INCOME COUNTRIES  
MOST SERIOUSLY AFFECTED BY THE CURRENT ECONOMIC  
CRISIS

11. In his statement to the Economic and Social Council, the Secretary-General proposed that consideration should be given to a special operation for the benefit of low-income countries with serious balance-of-payments problems. The intent of the operation is to provide additional assistance, on a temporary and exceptional basis, to those countries whose economies have been particularly disrupted by recent economic shocks. The intensified payments difficulties arising from the current economic situation are especially harmful for the least developed countries. They cannot only ill-afford any pause in the already slow pace of their economic growth, but they also experience greater difficulty in recovering their forward momentum.

12. A study, which had been prepared by the Secretariat at the request of the General Assembly, <sup>2/</sup> gave an estimate of \$5 billion as a broad order of magnitude of the additional assistance, mainly in the form of grants, which the low-income countries would need in 1981 to compensate for the adverse movements in the prices of their imports and exports; such a volume of additional assistance would appear necessary as a condition for realizing a minimal increase in their imports.

13. The proposal was based on an analysis of the likely balance-of-payments situation of low-income countries as a group in 1980 and of the effects of a further likely deterioration of the terms of trade on their balance of payments in 1981.

14. More recent estimates serve only to confirm the analysis carried out earlier in the year. These revised estimates, which are based on circumstances as foreseen in mid-1980, suggest that import prices of low-income countries may be expected to rise by around 27 per cent in 1980 and by another 13 per cent in 1981. Among the major categories of imports, prices of food-grains (rice and wheat) are estimated to increase by 19 per cent in 1980 and 10 per cent in 1981, oil prices by 65 per cent and 15 per cent, and prices of manufactures by about 14 per cent in both years. Prices of exports from these countries,

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<sup>2/</sup> In its resolution 34/217 of 19 December 1979, the General Assembly requested the Secretary-General to review and study speedily the situation of those developing countries which, given their low per capita income as a reflection of relative poverty, low productivity and low level of technology and development, merit consideration as most seriously affected by the current economic crisis caused by sharp increases in the prices of their essential imports ... and to include a final report in the analytical report /requested under resolution 34/207/ to the Assembly at its special session in 1980. In response to that request, two reports were prepared: "Immediate measures in favour of the most seriously affected countries: preliminary report of the Secretary-General" (A/AC.191/50, A/AC.196/14 and Corr.1), and "Immediate measures in favour of most seriously affected countries: report of the Secretary-General" (A/S-11/5/Add.1).

on the other hand, are estimated to increase by about 13 per cent in 1980 and 10 per cent in 1981. <sup>3/</sup> Thus, a comparison of the movements of import and export prices suggests that the terms of trade of these countries are likely to deteriorate by 7.5 per cent in 1980 and by a further 2.3 per cent in 1981.

15. Present indications for the low-income countries as a whole are that the deterioration in the terms of trade being experienced in 1980 is severely constraining their volume of imports. While no entirely reliable forecast can be made at the present time, it appears increasingly likely that there will be little, if any, growth in the volume of imports over the year. Movements in other main components of the balance of payments, such as the volume of exports, capital flows and changes in foreign exchange reserves, are unlikely to be sufficient to offset the deterioration in the terms of trade and to sustain the needed upward trend in the volume of imports.

16. For 1981, the prospects remain discouraging; the circumstances which have emerged since the previous report of the Secretary-General have given no grounds for a more favourable assessment of the outlook. The depressed level of economic activity in developed market economies is expected to continue to dampen the growth of demand for exports from developing countries. Furthermore, the level of foreign exchange reserves of some of these countries has been declining in recent months, and the possibility of financing part of imports in 1981 by a further drawing down of reserves is diminishing. There are, moreover, new uncertainties about oil supplies which may generate a further upward pressure on prices. With such prospects, these countries face a worsening payments situation in 1981. Although some uncertainty inevitably surrounds forward estimates, in the present international economic situation it appears very likely that, following a poor performance in 1980, imports will again fail to grow in 1981 unless additional balance-of-payments financing is available.

#### IV. IMPLEMENTATION OF THE PROPOSAL

17. In the report of the Secretary-General (A/S-11/5/Add.1), a group of 66 countries was set forth as a starting point for investigation of the effects of the deteriorating economic situation on individual low-income countries. The group was subdivided into countries with per capita incomes below \$200, those between \$200 and \$400, and those between \$400 and \$600; all of the least developed countries, with one exception, are included in the group. Some low-income countries, however, have been experiencing, or can be expected to experience, an improvement in their balance of payments. It is for this reason that, on a priori grounds, low-income countries which are net exporters of petroleum were not included in the group of

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<sup>3/</sup> The difference between figures in the preceding report of the Secretary-General (A/S-11/5/Add.1) and those given here are due to use of more recent data in the present report.

countries to be investigated. But among the other low-income countries, there is also appreciable diversity of recent, or expected, experience. Therefore, a list of countries which are in need of additional assistance could be drawn up only after making an assessment of the gravity of the situation facing each country in regard to its present or prospective balance of payments. Accordingly, if the proposal of the Secretary-General were to be implemented, an exercise to identify countries hardest hit in 1981 by external economic events would have to be undertaken. The countries so identified would constitute the list of countries to benefit from the special operation proposed for the year.

18. The technical exercise to be carried out for 1981 would entail the estimation, for each country, of its balance-of-payments deficit in 1981 on the assumption of a "normal" level of imports <sup>4/</sup> and after making due allowance for likely proceeds from merchandise exports, other net payments on current account, normal net capital inflow, the foreign exchange reserve position, and the ability to borrow from the market or official multilateral institutions for balance-of-payments purposes. Those countries whose balance-of-payments deficits amounted to 5 per cent or more of their normal level of imports would be deemed to qualify for assistance under the special operation.

19. Since the exercise for 1981 would serve as the basis for the disbursement of funds, it would require substantial technical work. A more detailed analysis of the prospective balance-of-payments situation of each country would be necessary, and a series of estimates would have to be made for countries lacking up-to-date information. This analysis would best be undertaken in the early months of 1981. Such a timing would permit reasonably reliable forecasts of the balance-of-payments situation of individual countries for the year as a whole; some present uncertainties about the prospective course of events in 1981 would be clarified. But it would also allow time for the disbursement and substantial utilization of funds in the same year.

20. It may be expected that a substantial part of the additional assistance to be made available under the special operation would be disbursed through bilateral channels or through intergovernmental agencies outside the United Nations family. However, as the distribution of these funds would not conform exactly to the incidence of need among the individual countries and as some countries would consequently experience shortfalls, it would be essential that some part of the assistance be disbursed through a United Nations account. With assistance being provided through such a combination of channels, some central supervisory and co-ordinating machinery would be necessary. Its primary purposes would be to monitor the flow of assistance being provided through the different channels and to

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<sup>4/</sup> The "normal" level of imports is assumed to be equal to a normal trend level. In the report of the Secretary-General (A/S-11/5/Add.1), an annual rate of increase in the volume of imports of 4 per cent was used for this purpose. This is a historical rate consistent with the actual rate of economic growth attained by low-income countries as a group in the recent past.

co-ordinate the assistance disbursed through the United Nations account with other assistance. Suitable machinery might consist of a small intergovernmental committee which would be assisted by representatives of the Secretary-General and of other relevant international organizations.

21. As stated in the earlier report, the assistance to be provided under the special operation, whether disbursed through bilateral or multilateral channels, should mainly take the form of grants, particularly for the least developed countries. The intent of the operation is to provide additional assistance on a temporary and exceptional basis. Most of these countries do not have the capacity to finance increased balance-of-payments deficits through raising long-term loans on commercial terms. Nor should the additional finance add to the burden of their external debt which is repayable within the next few years.

22. The assistance sought under the special operation should be additional to the existing flow of official development assistance and to the increase already planned for 1981. It should also be additional to the assistance envisaged in response to the Immediate Action Programme for Least Developed Countries. In a number of donor countries, legislation approving the volume of official development assistance to be provided in 1981 may already have been prepared or enacted, and the nature of the legislative process may preclude revision of the amount budgeted. Even with this limitation, however, there are generally considerable possibilities for increasing the flow of assistance in the short term. There is, for instance, commonly a wide margin between commitments and disbursements, and the rate of disbursement could be readily accelerated through the substitution of project assistance by programme assistance which was designed to meet current difficulties. Early agreement on the commitment of funds for 1982 could also ease balance-of-payments strains in late 1981. A number of countries, moreover, have the possibility of drawing on contingency funds or other discretionary funds.

23. As a procedure for raising the funds required under the special operation developed countries and other countries in a position to do so should be requested to indicate the total additional assistance which they would consider providing through both bilateral and multilateral channels. These indications would have to be given as early as possible. When the countries to receive additional assistance under the special operation have been identified in early 1981, donor countries would be apprised of the needs of individual countries and would be asked to inform the Secretary-General of the additional bilateral assistance which they are providing to these countries. Contributions to the United Nations account should also be made at this stage so that these funds can be disbursed as soon as the additional bilateral assistance is known.

#### V. FINANCING OF MORE INVESTMENT IN ENERGY IN NON-OIL-EXPORTING DEVELOPING COUNTRIES

24. The longer-run adjustment of developing countries to recent changes in the world economy must include rapid development of their energy resources. For this reason, the Secretary-General, in his statement to the Economic and Social Council,

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pointed to the need to increase without delay the volume of investments for the exploration, development and exploitation of conventional and renewable sources of energy in the developing countries. In his view, the initiatives already taken, especially through multilateral agencies and in particular the World Bank, should be intensified, and their resources should be very substantially increased.

25. According to the World Bank, between 1966 and 1975, developing countries invested about \$12 billion a year in the production of commercial energy. In 1980, their investment in electric power, coal and petroleum production, and refining was estimated by the Bank at \$34 billion, almost triple the average of the earlier period. As regards oil-importing developing countries, investments in energy production were estimated at \$24.6 billion in 1980; the annual investment requirements of these countries were estimated at \$37 billion during the first half of this decade and at \$53 billion during the second half. 5/

26. This rapid expansion in investment requirements has elicited modification and expansion in the Bank's own activities. In 1977, the Bank had extended its energy operation from the power and coal sectors to assist member countries to develop their oil and gas resources, and in 1979 an accelerated programme was approved which included financing for exploration as well as production. During the fiscal years 1979-1981, the Bank's lending for petroleum is planned to be about \$1.3 billion. For the period 1981-1985, the Bank's energy lending programme calls for expenditure of \$4 billion on oil and gas predevelopment and production projects. This accounts for about 30 per cent of the Bank's total energy lending programme of \$13 billion for the 1981-1985 period.

27. Further expansion of the Bank's activities in this field is required and the Bank has proposed that this should be accomplished by the establishment of an energy financing affiliate. In the light of the discussions at the recent annual meeting of the Board of Governors of the Bank, the President of the Bank will prepare proposals on the possible structure and organization of an energy financing affiliate for submission to the Board of Executive Directors by the end of calendar year 1980 or early 1981.

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5/ World Bank, Energy in Developing Countries (Washington, D.C., August 1980), pp. 6-7.