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CONTENTS

Chairman: Mr. Moraiwid M. TELL (Jordan).

AGENDA ITEM 38

Establishment of a United Nations capital development fund: report of the Committee on a United Nations Capital Development Fund (continued)* (A/6303/Add.1, chap. II; A/6418, A/6459, A/C.2/L.910, A/C.2/L.913)

1. Mr. SAHLOUL (Sudan), introducing draft resolution A/C.2/L.910, said that the establishment of a United Nations capital development fund was more than ever necessary for the achievement of the targets laid down in General Assembly resolutions 1522 (XV) and 1710 (XVI). An analysis of the economic difficulties facing the developing countries confirmed the estimate given in the 1964-1965 annual report of the International Bank for Reconstruction and Development and the International Development Association,[1] that over the next five year the developing countries could effectively use between $3,000 million and $4,000 million a year more than hitherto. The resources made available by multilateral agencies, especially the World Bank group, would have to be supplemented from another source. The problem had been examined by the Committee on a United Nations Capital Development Fund at its fifth session and opinions had been divided. Most of the representatives of the developed countries still believed that the existing multilateral agencies could adequately provide additional financial resources but a majority in the Committee believed that the time had come for the establishment of a capital development fund. The Committee had therefore recommended that its report should be submitted for consideration to the General Assembly so that it could take the necessary measures, at its present session, in regard to the draft statute as set forth in draft resolution A/C.2/L.910.

2. The purpose of the fund was to supplement the resources available to the developing countries through grants and soft loans in order to fill the gaps in development financing. The fund should finance those feasibility studies which could not be otherwise financed and provide the developing countries with capital to diversify their economies, especially through industrialization. Such activities would assume greater importance with the establishment of the United Nations Industrial Development Organization (UNIDO). The fund should be a model of international economic co-operation based on complete respect for the political integrity and sovereignty of the recipient countries which otherwise would be forced to continue to accept tied aid with all its undesirable consequences.

3. The expenses of the fund should be divided into two categories: those for administrative activities and those for operational activities. As provided in article IV of the draft statute, the former should be borne by the regular budget of the United Nations subject to a ceiling fixed by the General Assembly and the latter should be met from voluntary contributions by Member States, in cash or in kind. The purpose of such a division of expenditure was to keep down administrative overheads and to ensure that voluntary contributions were used entirely for operational activities. It was hoped that the developed countries would provide the larger share of contributions but at the same time it was essential that the developing countries should contribute as generously as they could, especially at the first pledging conference, and for a number of years in advance so as to enable the fund to operate effectively. Contributions, whether from Governments or from private sources, should not be subject to any limitations and conditions imposed under bilateral agreements. The proposal that the first pledging conference should be convened during the early part of the twenty-second session of the General Assembly was intended to give Governments time to make the necessary arrangements.

4. The forms of assistance to be made available to the developing countries were set forth in article V; and the procedure concerning requests for assistance (article VI) took into account the desirability of maintaining a reasonable geographical balance in allocations and of utilizing to the fullest the experience and services of UNIDO and the United Nations Development Programme (UNDP), the specialized agencies and the regional development banks.

5. Article VIII, concerning organization and management, followed the same lines as the Statute of UNIDO but it was proposed that the executive board of the fund should consist of twenty-four members only, since it was felt that the representation of countries at different stages of industrialization, as in UNIDO, was not appropriate in the case of the fund. It was worth noting that, in article IX, a firm date had been fixed for the appointment of the first Managing Director.

*Resumed from the 1079th meeting.

[1] Annual Report, 1964-1965 (Washington, D.C.), and supplementary information for the period from 1 July to 31 December 1965. Transmitted to the members of the Economic and Social Council by notes of the Secretary-General (E/4129 and E/4129/Add.1-E/4130/Add.1).

6. Mr. KADRY (Iraq), as a sponsor of draft resolution A/C.2/L.910, felt that action was urgently required to increase the flow of external resources to the developing countries. The International Bank for Reconstruction and Development had estimated that over the next five years the developing countries could effectively use between $3,000 million and $4,000 million a year more external capital than hitherto. The Administrator of UNDP had also emphasized the necessity of increasing the net flow of resources.

7. By resolution 1521 (XV), the General Assembly had decided in principle that a capital development fund should be established, but a number of developed countries were opposed on the grounds that the purposes of such a fund were already being served and that its establishment would result in a dispersal rather than an increase of total resources available for development.

8. Although the World Bank group, UNDP and the regional development banks played an important role in financing pre-investment, there was urgent need for further multilateral assistance, primarily for the optimum utilization of natural and other resources in the developing countries. Such assistance should take the form of long-term grants and low-interest loans and on easier terms than the World Bank group was able to offer. If that assistance was made available to the developing countries by a multilateral institution, such as the proposed fund, they would be saved from the dangers of continuing dependence on bilateral assistance with political strings attached and growing indebtedness. Furthermore, many developing countries which were dependent on a single export product urgently needed to diversify their economies through industrialization and for that reason they looked to the establishment of a fund that would promote investment proper.

9. The opponents of the proposed fund argued that its establishment would generate competition for funds and qualified staff. Greater stress, however, should be placed on the need for co-operation between the fund and the other organs of multilateral financial assistance. While admitting the possibility of competition for additional funds, everyone must make the necessary extra effort to meet the growing needs of the future. Many appeals had been addressed to the representatives of the developing countries which, far from seeking to impose a solution, were acting with a full sense of responsibility as members of the international community. He appealed to the Committee to support the draft resolution.

10. Mr. Mohamed AL-ATRASH (Syria) said that, as a sponsor of the draft resolution, he was convinced of the need to establish the fund without further delay. As the 1964-1965 annual report of the Bank had pointed out, the developing countries could effectively use over the next five years between $3,000 million and $4,000 million a year more in external aid. The Secretary-General had also pointed out, at the forty-first session of the Council, that the main brake on the efforts of the developing countries to accelerate their economic progress was the insufficiency of external resources.

11. The developing countries naturally wished to preserve their political integrity and it was therefore important for them to obtain external capital without political ties. The financial assistance offered by the World Bank group was not altogether exempt therefrom, as testified by its decision of 1956 to withdraw the offer to finance the High Aswan Dam project which had led to the Suez crisis.

12. In view of their growing burden of debt servicing and consequent loss of export earnings, the developing countries desperately needed additional financial assistance on easy terms and their needs could best be met through the proposed fund.

13. Mr. ROOSEVELT (United States of America) recalled his Government's consistent opposition both to the transformation of UNDP into a capital development fund and to the establishment of a new United Nations institution for capital investment. The setting up of a capital development fund implied that resources of a suitable size and type would be available for investment. Yet, despite repeated appeals, the resources of existing organs such as UNDP, the World Food Programme and the International Development Association (IDA) were below the desired level. There was no reason to believe that the necessary resources would be forthcoming for a new fund. His delegation was against the tendency to devote more and more funds to administrative overheads and less and less to operational programmes.

14. Making the administrative expenses of the proposed fund payable out of the regular budget of the United Nations, as stated in paragraph 2 of article IV of the draft statute (A/C.2/L.910), would set a very dangerous precedent. It sought to make those who had repeatedly disagreed with the establishment of the fund pay part of the cost of maintaining it. There was no similar arrangement in UNDP, where the operational as well as the administrative costs were voluntarily financed.

15. The debate so far had centred on the net movement of official capital expressed in aggregate terms. It should be remembered, however, that flows of private capital played an important role in economic development. Between 1964 and 1965, the total net outflow from the United States had increased from $4,300 million to $5,050 million. As stated in the supplementary report by the Secretary-General on the international flow of long-term capital and official donations, (E/4170/Add.2 and Corr.1), that increase had provided the bulk of the over-all increment and had kept the United States share of the total flow at about 57 per cent.

16. Although the developing countries bore a heavy burden for debt servicing, the increase in the flow of capital and donations had enabled them to add substantially to their reserves. The increase should therefore be continued and a special effort should be made in the areas which were not benefiting as much as others. Instead of establishing an organ which had been consistently opposed by the capital-exporting countries, efforts should be concentrated on such valuable forms of assistance as the provision of engineering, production and management teams, which shortened the time required before projects became

operational, low-cost plant machinery and equipment and technical processes, which virtually saved the recipient countries the cost of research and development.

17. The documentation available showed that there were resources which could and did respond to the needs of developing nations. Those resources should be increased and his Government was aware of the importance of low-interest rates and long repayment periods. It was also the duty of all capital-exporting countries and multilateral bodies to reduce the time lag between the completion of multilateral and bilateral feasibility studies and the initiation of projects. The problem had not only been recognized but was being tackled constructively in such organs as UNDP.

18. The United States would vote against draft resolution A/C.2/L.910 because it did not believe that such a fund would provide any answer to the problem of increasing the net capital flow to the developing countries. The United States would not contribute to a capital development fund but would participate in practical efforts to solve the problem. A more constructive and immediate approach to the current needs of the developing countries would be to increase the flow of private capital. It was to be hoped that the sponsors would carefully reconsider the entire problem of financing and would not press their essentially political proposal.

19. Mr. LUBBERS (Netherlands) said that, in order to avoid duplication and increased administrative expenditure, he favoured the gradual transformation of the Special Fund component of the UNDP into a capital development fund. An immediate transformation was neither feasible nor desirable, for UNDP had already entered into substantial commitments for pre-investment projects, and funds should not be diverted to investment activities until the $200 million target for pre-investment established by the General Assembly had been reached.

20. The United Nations Development Programme was, in fact, already performing some of the functions of a capital development fund. It was devoting increasing attention to industrial development, and in that connexion would have to work in close co-operation with UNIDO. It was undertaking pilot and demonstration projects, which constituted the initial phase of investment projects. It was investing a limited amount of cash resources in developing countries and co-operating closely with other international bodies concerned with development financing. The administration of UNDP was becoming increasingly aware of the whole complex problem of investment follow-up, including second-phase projects, the active encouragement of investor interest, and the provision of advisory services. There was, of course, scope for further progress, particularly with regard to the supplementary financing scheme prepared at UNCTAD's request.[2] At the second session of the UNDP Governing Council, in June 1966, his delegation had suggested that it might be interesting for UNDP to supervise the functioning of that scheme, even if it was administered by another body.

21. For those reasons he would be unable to support draft resolution A/C.2/L.910 and had submitted another draft resolution (A/C.2/L.913) urging the UNDP Governing Council, at its next session, to consider ways and means of implementing the recommendation A.IV.8 of UNCTAD.[3]

22. Mr. LAI (Malaysia) said that he doubted the wisdom of transforming the Special Fund component of the UNDP into a capital development fund, since that could be done only at the expense of pre-investment activities for which the Special Fund was created. Since the USSR favoured transformation and, presumably, the benefits derived thereby would be the same as those from a separate capital development fund, he hoped that the Soviet delegation would support draft resolution A/C.2/L.910. His delegation attached great importance to pre-investment activities and, in view of the limited resources available to the Special Fund component of the UNDP, he would be opposed to its transformation.

23. Sir Edward WARNER (United Kingdom) said that, for the reasons he had explained at the 1077th meeting, he opposed the establishment of a capital development fund, and would therefore vote against draft resolution A/C.2/L.910. In any event, he could not accept the financial implications of paragraph 2 in article IV, for a voluntary capital development fund, like UNDP, should cover its own administrative expenses. He saw no prospect of compromise, for his delegation was also opposed to the immediate or gradual transformation of the Special Fund component of the UNDP into a capital development fund and would vote against any draft resolution to that effect for the reasons given by the Malaysian representative. The investment field was already fully covered by existing institutions, including IDA, to the replenishment of which the United Kingdom would contribute, in co-operation with other developed countries. He could not support the multiplication of institutions which could not increase the flow of aid and would only lead to duplication and dissipation of scarce resources. The establishment of a capital development fund, by whatever method, would be in complete contradiction with the Committee's resolution on agenda item 52 (1073rd meeting), which called for the streamlining and concentration of development assistance.

24. Mr. MURAYA (Kenya) said that, in view of the general agreement on the need for more investment in the developing countries, it was discouraging to hear two delegations announce that they would vote against the draft resolution even before there had been any substantial discussion on the subject.

25. Valuable work was being done by UNDP, but pre-investment studies should not simply be shelved because there were no funds to execute the projects concerned. The international financial institutions were also playing a vital role but the developing nations—and particularly the African States—blamed them for pouring funds into South Africa, where the racist régime had consistently violated the United Nations Charter.

[2] Supplementary Financial Measures, A Study Requested by the United Nations Conference on Trade and Development—1964 (International Bank for Reconstruction and Development, Washington, D.C., December, 1965).

[3] See Proceedings of the United Nations Conference on Trade and Development, vol. I: Final Act and Report (United Nations publication, Sales No.: 64.II.B.11).

26. It seemed as though the developed countries wanted to benefit from the economic misfortunes of the developing countries. They insisted on bilateral loans and private investments, which imposed too great a burden on the recipients. Kenya was alarmed to find that foreign companies based in its territory were repatriating funds which should have been ploughed back into the Kenyan economy. The inflow of capital would merely fill the gap created by the outflow, if the latter continued. Debt servicing obligations were already crippling the economies of some developing countries. In most cases, those countries were required to purchase capital goods or hire experts and advisers from the donor country.

27. The proposed fund would counter the outflow of capital from the developing countries and provide finance for projects which had been rejected by the existing international institutions. Because of their composition, those institutions had sometimes been subjected to external pressures, particularly from certain business concerns, and had withdrawn their support of vital projects such as the High Aswan Dam project in Egypt. The World Bank was hesitating to finance another big project in Africa, not because the project was not feasible but because certain international tycoons would stand to lose by it.

28. The capital development fund should make loans on a long-term basis and at reasonably low interest rates. The loans should be for consistent economic programmes, as opposed to specific and rigid economic projects, and they should transcend any political or ideological considerations.

29. He appealed to the developed countries to consider the matter in its proper context: the fund would supplement and not supplant existing sources of development financing.

30. Mr. WILGRESS (Canada) noted that the developing countries needed more financial aid on easier terms if the gap between their potential and actual growth was to be narrowed. In its bilateral aid programme, Canada had tried to alleviate the developing countries' needs: its outright grants and long-term, low-interest loans, which accounted for two thirds of the total programme, had amounted to over $220 million in 1966—an increase of $100 million over the corresponding figure for 1963-1964. It was expected that the programme would continue to expand and Canada was thus making good progress towards the target of 1 per cent recommended by UNCTAD.

31. The establishment of a capital development fund would not increase the flow of capital to developing countries but rather divert funds from other institutions and bilateral programmes. A better approach would be to increase the resources of the existing institutions, in particular the World Bank. In view of the growing need for aid on concessional terms, IDA should be replenished at a higher level and Canada was prepared to join with other countries in such replenishment. The regional development banks could also play a vital role in accelerating the flow of capital; Canada had contributed to the Asian Development Bank and to the Inter-American Development Bank.

32. It has been suggested that gaps existed in the spectrum of activities of the existing investment agencies and that they might be filled by a capital development fund. Canada believed that the gap was financial rather than institutional. The so-called gaps in areas where assistance might be required resulted from decisions to give priority to one sector over another. Furthermore, it was questionable whether the areas in which gaps were said to exist lent themselves to multilateral financing and whether they could not be more appropriately financed by bilateral or private capital sources.

33. The target for UNDP—which had been set by unanimous agreement—had not been met, and there was a substantial shortfall in the resources available to other key United Nations schemes such as the World Food Programme. The proposed fund would duplicate existing facilities and compete for scarce capital resources. The World Bank had been broadening its activities and had embarked on a large-scale programme of capital investment in education and agriculture. The International Finance Corporation could now borrow up to four times its own capital and surplus from its parent body and should make about $400 million available for re-lending to private enterprises without government guarantee. The World Bank group and the regional development banks would play a key role in achieving the desired goals. The Canadian delegation therefore continued to oppose the establishment of a United Nations capital development fund and the conversion of UNDP into such a fund.

The meeting rose at 10.15 p.m.

Litho in U.N. 77201—May 1967—2,200