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CONTENTS

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

AGENDA ITEMS 38, 40 AND 42

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

Accelerated flow of capital and technical assistance to the developing countries: report of the Secretary-General (A/6303, chap. V, sect. I; A/6461, E/4170 and Add.1 and 2 and Add.2/Corr.1, E/4171 and Corr.1, E/4189 and Corr.1 and 2, E/4240, A/C.2/L.898, A/C.2/L.902, A/C.2/L.905)

Inflation and economic development: report of the Secretary-General (A/6303, chap. III, sect. I and chap. XVI, sect. VIII; A/6424, E/4152 and Corr.1)

1. Mr. VARELA (Panama), introducing his delegation's draft resolution on the agenda item 40 (A/C.2/L.902), said that, although his delegation's views on the three items as a whole might seem Utopian to some, they were merely bold when compared to the orthodox system hitherto used by the United Nations to promote the social and economic growth of the underprivileged peoples. In terms of the requirements and wishes of those peoples, however, they were only logical and rational, since they served the world's need to advance towards a system whereby national decisions would be taken in the context of the international situation and of objectives tailored to the needs of the world community.

2. Everyone was aware of the specific data pertaining to the net flow of capital to the developing countries, the absorptive capacity of those countries and the heavy burden imposed on them by the servicing of a foreign debt contracted on unfavourable terms because of the demands of the rich countries. Those data had been given in many reports and speeches and he did not think it necessary to repeat them. The critical insufficiency of the flow of capital from the developed countries to the developing countries was due to the fact that, under the United Nations system, that flow depended on voluntary contributions, namely, the goodwill of Governments, which too often forgot that developing countries were not resigned to poverty and that the future of the world would be determined to a large extent by the magnitude of the effort made by the peoples of the developed countries to promote progress and eliminate the present gap between them and other peoples.

3. Neither the appeals and decisions of the General Assembly, the supreme organ of the United Nations, nor the establishment of international bodies to promote economic growth and social progress had led to the fulfilment of the objectives set. They had done even less to satisfy the growing expectations of the peoples. All the organizations so far established were financed by voluntary contributions which always fell short of the objectives, reasonable though they were, which would allow moderate results to be achieved. For instance, none of the targets set and so solemnly proclaimed for the United Nations Development Decade had been reached, and the world situation was as described by his delegation in the preamble to its draft resolution. Similarly, the proposed United Nations capital development fund would, according to the draft statute, be financed by voluntary contributions. Although his delegation did not expect very much from that fund, it would not oppose it. It would, however, object to the fund's becoming a new United Nations body or a new unit of the United Nations Development Programme (UNDP), which would lead to a harmful dispersal of resources. It therefore believed that the time had come to consider bold measures, consistent with present realities, which would render international economic interdependence more effective.

4. Fully convinced, like the President of the Economic and Social Council, that the efforts to promote development were being hampered not by the irony of fate but by the will of men, his delegation had submitted a draft resolution which merely requested a study, but which would put the goodwill of the leaders of all countries to the test and make it possible to assess the feasibility of a system for adequately complementing the efforts of the developing countries to accelerate the pace of their economic growth and social progress.

5. He did not doubt that the draft resolution, which laid no obligation on the Member States, would win the Committee's support, since its purpose was one which could not, in view of the pressure being exercised by the great majority of the world's population, be indefinitely ignored.

6. Mr. Mohamed AL-ATRASH (Syria), introducing, on behalf of the fourteen sponsors, draft resolution A/C.2/L.898, stated that, to accelerate their rates of growth and bridge the gap between them and the developed countries, the developing countries would need an increased flow of net financial aid, even if their trade problems were solved.

7. The International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) had estimated in its most recent annual report[1] that the developing countries could, over the next five years, use effectively an average of between \$3,000 million and \$4,000 million a year more than they had received from abroad in recent years. The Secretary-General, too, had pointed out that the insufficiency of external resources was the main obstacle to the efforts of a large number of those countries to accelerate their economic growth. Unfortunately, the net flow of official assistance from the industrial countries to the developing countries and to multilateral institutions had remained rather static at about \$6,600 million during the five years 1961 to 1965. Moreover, as a percentage of the national income, the amount of assistance had declined for the fifth successive year. That state of affairs was due, inter alia, to the high rate of increase in the cost of debt service payment. If the settlement of trade arrears and of other short-term liabilities were included, the figure paid by ninety-seven developing countries under that head would be seen to have amounted to \$4,000 million in 1964. That, plus the fact that the net flow of official aid had increased during the period 1956-1964 at an average annual rate of 8 per cent, whereas debt service payments had risen by 19 per cent per annum, explained the concern of the sponsors that the rapid increase in the burden of debt servicing borne by the developing countries was likely to cancel out the inflow of capital in fifteen years. In a number of developing countries, moreover, the flow of long-term capital and official grants was already negative.

8. The main idea of the operative part of the draft resolution was that one of the ways of rectifying the situation was to reduce the drain of capital from the developing countries. The first preambular paragraph of the draft resolution referred to General Assembly resolution 1938 (XVIII). In that connexion, he recalled operative paragraph 2 (a) of that resolution. In requesting the General Assembly to endorse Economic and Social Council resolution 1184 (XLI) the sponsors felt that agreement on the methodological and conceptual problems raised in measuring capital flows was essential to provide reliable data on such flows and to enable the Secretary-General to comply with operative paragraph 2 of the draft resolution.

Mr. Boiko (Ukrainian Soviet Socialist Republic), Vice-Chairman, took the Chair.

9. Mr. PIÑERA (Chile) wished to clarify his delegation's position on the establishment of a United Nations capital development fund, a matter which the Organization had been examining for fifteen years but which was more topical than ever.

10. Foremost among the international sources of financing there was, at the world level, IBRD, which, since its foundation, had provided valuable aid both to the developing countries and to the developed countries (especially the European countries after the war), but whose operations were nevertheless subject to certain limitations. Its investments were intended primarily to promote industrial development, then agriculture and transport and, on a lesser scale, the extractive industries. It had recently entered the field of social investment, but there was no denying the fact that, since it depended mainly on the private capital market, it had had to confine itself to interest-yielding operations attractive to investors. In so saying, his delegation did not mean to criticize unfairly IBRD, from which its country had received generous assistance. It was merely stating a fact. The International Development Association (IDA) could, thanks to the efforts made by the developed countries, offer the developing countries very favourable financing terms, but it was mainly interested in infra-structure and transport and, because of its limited resources and of a position of principle, its operations did not cover the social sector. In so far as its modest resources permitted, the International Finance Corporation was doing very useful work which he had no intention of criticizing, but its operations were limited by the fact that its resources came from the private sector. At the regional level, the founding of the Inter-American, Asian and African development banks were evidence of an effort whose importance could not be overlooked. The Inter-American Development Bank in particular had managed, with the help of many countries outside Latin America, not only to grant loans for industry, agriculture and transport but also to participate in the execution of programmes for the development of the region; the establishment within the Bank of a special fund for investments in the social sector enabled it to finance education, public health, housing and land reform, although it was very far from meeting all the requirements.

11. In view of those considerations, the developing countries' advocacy of a United Nations capital development fund was fully justified: not only were their needs not fully covered by the existing financial agencies, but, in addition, those agencies obtained their resources from the private capital market and therefore had to impose terms laid down by the private sector. It was the duty of the United Nations, which was in fact the international community, to provide financing for such essential projects as the development of primary education, for example, from funds collected at the international level through international solidarity and not provided by a few groups only. It was perhaps a negative definition to say that the capital development fund should meet needs which were not covered by the other financial agencies but that definition had a very positive significance for the countries which, because they could not provide the guarantees currently required, were unable to finance programmes in such essential sectors as education, public health, housing or land reform.

12. Of course, Chile did not deny that the leading role should be played by the developing countries,

[1] See Annual Report, 1964-1965 (Washington, D.C.), p. 62. Transmitted to the Economic and Social Council by a note of the Secretary-General (E/4141).

whose efforts were the motive power of their own progress. Those efforts could not succeed, however, without the essential addition of external aid. It was true that arrangements other than the establishment of a United Nations capital development fund were possible for financing projects throughout the world which, even if they were not immediately profitable, were socially essential. The Chilean delegation thought, however, that the best solution would be to set up an organ which would operate in a manner consistent with the United Nations spirit of solidarity.

13. With regard to the accelerated flow of capital and technical assistance, his delegation reserved the right to return later to the various draft resolutions before the Committee and emphasized the growing seriousness for the developing countries of the problem of external debt servicing. Those countries had been able, thanks to the goodwill of their creditors, sporadically to find temporary solutions. However, no international institution had yet tackled systematically the refinancing of external debts. It was the duty of the United Nations to find machinery for solving a problem which was very seriously affecting the developing countries' balance of payments.

14. Inflation was a matter of constant concern in Chile, which had succeeded, after a difficult struggle, in reducing its inflation rate from 85 to 42 per cent and then to 25 per cent and was trying to bring the rate down to 18 per cent. Inflation was not an accidental phenomenon: it was generally due to the structure of the economy, of foreign trade or of the external debt. It could therefore be checked only by a thorough reform of the faulty structures.

15. Mr. SADI (Jordan) supported draft resolution A/C.2/L.898. He had two suggestions for clarifying the text but would not press them. In the third preambular paragraph, the last phrase, starting with the words "on present form", should be replaced by the phrase "on the present rate, the rapid increase in the debt servicing burden of developing countries would offset completely the inflow of assistance and long-term capital in a little more than fifteen years", and the words "limit or" should be deleted from the penultimate line of operative paragraph 2.

16. Mr. ABERKANE (Algeria) emphasized that the flow of capital and technical assistance to the developing countries was a matter of urgent concern. The international community had been dealing with the matter since the fifth session of the General Assembly and, now that the end of the United Nations Development Decade was almost in sight, discussions were still being held on the decline in the pace of economic development in the world and on the need to do more. Since 1950, however, the problem had changed considerably: the crisis in international co-operation was scandalous and might become a tragedy when the Development Decade was found to be a failure. The aim of the Decade had been to pull the countries comprising two thirds of mankind out of the abyss of poverty, by enabling them to achieve a steady rate of annual growth of 5 per cent and to earmark 15 to 20 per cent of their gross national product for domestic savings, while persuading the developed countries to contribute 1 per cent of their national income, as decided by the United Nations Conference on Trade and Development (UNCTAD), to the economic growth of the developing countries.

17. The developing countries, for their part, had made a remarkable effort and had managed to boost their domestic savings by almost 6 per cent a year, so that savings in 1964 had amounted to almost 14 per cent of their gross national product. Although the target of 15 to 20 per cent had not been reached, the stagnation of investments was due, as stated in the World Economic Survey, 1965,[2] not to the lag in domestic saving but to the slackening in the inflow of capital from abroad. Algeria, for example, had tripled its domestic investment resources in less than three years and was trying to do still better through a policy of austerity and encouragement of private savings. In 1966, as a result of those efforts, gross domestic savings had amounted to 15 per cent and gross investment to 16 per cent of the gross national product, of which 11 per cent was for the public and 5 per cent for the private sector. Yet, although the developing countries were making great sacrifices, they could do still more both at home and abroad to increase the flow of external resources, which would still be an essential supplement for some time to come.

18. Admittedly, the more fortunate countries—both those with market economies and those with centrally planned economies—and even some developing countries were making efforts to provide bilateral and multilateral assistance but those efforts were inadequate, misdirected and sometimes reluctant. The limitation of international aid could not be attributed to a lack of funds, since the gross national product of the developed countries had risen at an average rate of 7 to 8 per cent a year, whereas the total capital outflow had dropped from 0.84 per cent of the gross national product in 1961 to 0.65 per cent in 1964. Very few countries had reached the target of 1 per cent set by UNCTAD and they were to be commended for having bravely taken up the challenge of under-development. The gap of under-development was widening daily: while the affluent societies were stricken with the fever of consumption at any price, which ended in waste, the poor countries, which were not importers and no longer net exporters of cereals were stubbornly and sorrowfully facing the spectre of famine. Their terms of trade were deteriorating year by year in an atmosphere of indifference and apathy. Cocoa was an example: in 1965 the world price had dropped 50 per cent in six months, with no reaction from the international community.

19. The disease was known: it was the will to fight it that was lacking. The domestic saving rates of the developing countries had risen since the beginning of the United Nations Development Decade but external savings had declined and investments had increased by only 4 per cent from 1961 to 1965, compared with 5 per cent in the 1950's. The flow of official capital, which was essential if there was to be any continuity in international assistance, never rose beyond about $5,700 million; flows of private capital fluctuated and interest rates had become less favourable; loans were increasingly replacing grants-in-aid to the developed countries; multilateral aid accounted for

[2] United Nations publication, Sales No.: 66.II.C.1.

only 10 per cent of the total volume of assistance and had never exceeded $500 million a year; lastly, the reverse flow of interest and dividends, which had to be deducted from the total volume of assistance, amounted to $3,500 million, which reduced the net value of assistance to $6,000 million.

20. The target of 1 per cent was not a ceiling but a bench-mark which some countries could reach more easily than others, depending on their degree of development and industrialization and on their resources. Some had gone even further and others might do so too before the end of the Decade. What mattered was the political will to attain that target.

21. His delegation was one of the sponsors of the draft resolution on the flow of external resources to developing countries (A/C.2/L.905), which reaffirmed Economic and Social Council resolution 1183 (XLI), reproduced that resolution in full in order to stress its importance and would have the General Assembly endorse the measures proposed. The sponsors, who had been joined by Chile, the United Republic of Tanzania and Venezuela—themselves sponsors of Council resolution 1183 (XLI)—hoped that the Committee would unanimously adopt the draft resolution in its existing form.

22. Mr. BRADLEY (Argentina) observed that, for the consideration of agenda item 38, the Committee had before it the clear and precise report of the Committee on a United Nations Capital Development Fund (A/6418). That Committee's fifth session, held in September 1966, had not yielded very encouraging results. The divergencies of views between different groups of countries on many aspects of the question had become more evident during the session. The countries which would be called upon to make contributions to the fund had not modified their position. However, the developing countries were unanimous in considering that, despite those profound differences, it was necessary to implement General Assembly resolution 1521 (XV), by which the Assembly had already decided in principle that a United Nations capital development fund should be created. They had therefore submitted a draft amendment to the statute (ibid., para. 14) which would adapt its text to current circumstances and the new organizations that had been established since then. It was essential to adopt a clear statute which would give the fund the machinery it needed to fulfil its function. The statute in question would shortly be circulated in the form of a draft resolution.[3] In his opinion, the Committee on a United Nations Capital Development Fund had performed its task at its fifth session; it was now a matter of deciding whether that Committee should be given new tasks or be terminated.

23. Inflation and the acceleration of capital flows were two interdependent problems: so long as there was uncontrolled inflation in the developing countries, it would be difficult to accelerate the flow of capital to those countries. There were, of course, external influences, but the essential responsibility for inflation and for measures to check it lay primarily with the countries which suffered from it. Argentina, which had been experiencing the adverse effects of inflation for twenty years, was now endeavouring to remove the cause by an appropriate policy. The General Assembly should do its utmost to study the causes of inflation, which was increasingly hampering the developing countries' efforts, and to determine the proper remedies to ensure reasonable security for foreign capital and halt the flight of national capital.

24. Economic and Social Council resolution 1183 (XLI) constituted a positive effort in that regard. It was reaffirmed in draft resolution A/C.2/L.905, and the Argentine delegation hoped that the latter text would be adopted unanimously.

25. Mr. NEDIVI (Israel) felt that it served no useful purpose to ponder the subjective causes of the present shortage of development capital. Neither Economic and Social Council resolution 1183 (XLI), nor the drafts under consideration, could remedy that situation in the near future, and it was doubtful whether the studies which those texts recommended could induce donor countries to increase their contributions. In those circumstances, it was essential to adopt a firmly practical attitude and to overlook no means of reversing the present capital-flow trend. The argument that no acceleration of the present flow of resources to the developing countries could reasonably be expected applied also to voluntary contributions to a United Nations capital development fund.

26. However, the United Nations might undertake investment activities proper within the framework of UNDP, and his delegation thought that General Assembly resolution 1936 (XVIII) and recommendation A.IV.8 of UNCTAD[4] concerning the gradual transformation of the Special Fund into a capital development fund in such a way as to include both pre-investment and investment activities remained valid. In its reply to the Secretary-General's note verbale of 9 March 1966 concerning operative paragraph 4 of General Assembly resolution 2042 (XX), the Israel Government had said that UNDP should have additional resources of approximately $225 million in order to undertake investment activities. Those resources should be devoted exclusively to demonstration and pilot projects as well as to the promotion of light industry, including the building of factories. Investment in a given project should in no case exceed $1 million.

27. A limited investment programme within the framework of UNDP would make it possible to stimulate economic activity in regions where the situation was critical and to direct available capital to the countries which needed it most. United Nations investment activities were not intended to replace those of the international financial institutions but to complement them. The United Nations might entrust to international lending institutions a number of the pre-investment activities which it was carrying on at present, in particular those relating to large-scale projects in the fields of infra-structure and development of natural resources. The United Nations Development Programme could then devote an increasing proportion of its resources to less im-

3/ Subsequently circulated as document A/C.2/L.910 and Add.1.

4/ 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).

portant projects or to industrial projects likely to attract private and public capital. According to the Administrator of UNDP, the limited resources available to UNDP did not allow it to extend its activities to investment proper.5/ In that connexion, it was essential to determine: (a) whether all pre-investment activities should, whatever the circumstances, be given priority over investment activities, even in the case of countries or regions which needed immediate investment to complement an already existing infra-structure; (b) whether UNDP pre-investment activities did not sometimes duplicate those of the lending institutions; and (c) whether there was not a limit to the number of requests for assistance that UNDP or any existing lending institution could effectively study, which would suggest the need for some division of the work.

28. The Israel delegation hoped that the review of the activities of the United Nations and its family of organizations would make it possible to reply to those questions clearly. In the meantime, any resolution or decision concerning a United Nations capital development fund should at least retain the idea of a gradual transformation of the Special Fund into a capital development fund.

29. Mr. RAHNEMA (Iran) said that although draft resolution A/C.2/L.898 repeated a number of the provisions of Economic and Social Council resolution 1184 (XLI), that did not diminish its great importance since it sought to give the Council's recommendations all the weight of the General Assembly's authority. The developing countries were fully aware of their responsibilities and they had made efforts which the Secretary-General had described as "heroic" to mobilize their own resources. For those efforts to bear fruit, they must be supported by adequate international assistance.

30. The volume of financial assistance depended both on the possibilities of the capital-exporting countries and on the absorption capacity of recipient countries. Although the possibilities of the advanced countries were sometimes greater than the absorption capacity of the developing countries, the flow of public capital to the latter was none the less clearly inadequate. The example of France, which devoted 1.85 per cent of its national income to foreign assistance, proved that increasing the flow of capital to the developing countries did not hamper the efforts of the donor countries to develope their own economies. In that connexion, the objective of 1 per cent set by UNCTAD had originally been, not a ceiling or an end in itself, but a minimum objective. The failure to obtain that objective was especially serious as the net flow of official assistance was tending to diminish.

31. The merit of draft resolutions A/C.2/L.898 and A/C.2/L.905 was precisely the fact that they stressed the importance of the net flow of capital. The Administrator of UNDP has rightly pointed out that it served no purpose to stress the need to attain arbitrarily defined minimum objectives and that it was necessary to ensure a genuine flow of capital capable of effectively supporting the efforts of the developing countries. In that connexion, the Organization for Economic Co-operation and Development had shown that with a broader definition of external debts—to include trade deficits and other similar debts—the debt-servicing obligations of the developing countries would amount to at least $4,000 million a year. The net flow of official assistance had therefore been less than $6,000 million in 1965, a figure which the Administrator of UNDP considered clearly inadequate in view of the objective of $14,000 million set for 1970.

32. By stressing the gravity of that problem, the sponsors of the two draft resolutions had tried to show that every possible effort must be made to increase existing sources of financing and to create new ones. The Iranian delegation would submit a draft resolution when the agenda item concerning the conversion to peaceful needs of the resources related by disarmament was taken up.

The meeting rose at 12.40 p.m.

5/ See document DP/L.19.

Litho in U.N. 77201—May 1967—2,200