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EXTERNAL FINANCING OF ECONOMIC DEVELOPMENT
OF THE DEVELOPING COUNTRIES

Report of the Second Committee

Rapporteur: Mr. I.S. CHADHA (India)

1. At its 1564th meeting, on 23 September 1967, the General Assembly allocated to the Second Committee agenda item 42, entitled:

"External financing of economic development of the developing countries:

- (a) Accelerated flow of capital and technical assistance to the developing countries: report of the Secretary-General;
- (b) Outflow of capital from the developing countries: report of the Secretary-General".

2. The Committee considered this item at its 1121st, 1124th to 1132nd, 1135th, 1136th and 1143rd to 1145th meetings, held between 16 October and 10 November 1967.

3. In considering the item, the Committee had before it a note by the Secretary-General (A/6848), a progress report by the Secretary-General on the outflow of capital from developing countries (E/4374 and Add.1 and Add.1/Corr.1 and Add.2), a report of a group of experts on the measurement of the flow of resources to the developing countries,^{1/} a report by the Secretary-General on factors affecting the ability of developed countries to provide resources to the developing countries (E/4375), a report by the Secretary-General on the international flow of long-term capital and official donations 1961-1966 (E/4371 and Corr.1), a report by the Secretary-General on the promotion of private foreign investment in developing

^{1/} United Nations publication, Sales No.: 67.II.D.17.

countries (E/4293 and Corr.1 and Add.1), a report by the Secretary-General on export credits and development financing (E/4274 and Add.1), and chapter V of the report of the Economic and Social Council to the General Assembly at its twenty-second session.^{2/}

4. The Committee also had before it four draft resolutions, the texts of which are reproduced in sections I to IV below.

I

5. At the 1131st meeting, the representative of Panama introduced a draft resolution A/C.2/L.960) which read as follows:

"The General Assembly,

Noting with concern that during the present United Nations Development Decade the objectives and targets of the Organization in respect of the volume, terms and procedures relating to the long-term flow of capital and official grants to the developing countries have not been achieved,

Recognizing that the pattern of regions differing in their level of economic well-being is a factor which seriously aggravates the numerous and serious world problems,

Recognizing further that it is necessary to ensure, as quickly as possible, genuine and effective international economic interdependence,

Noting that the assistance from public sources to the developing countries has been steadily decreasing during the last few years in relation to the income of the industrialized countries,

Noting with anxiety that the effort to promote development is impeded by a critical shortage of finance,

Recalling that the developed countries must attach to the financing of development a realistic priority in relation to their other preoccupations and responsibilities,

Recognizing that an adequate redistribution of income at the international level would generate and encourage, on the part of the developing countries, a feeling of identification with and participation in the international system which today excludes them from the accelerated progress of the industrialized countries,

^{2/} Official records of the General Assembly, Twenty-second Session, Supplement No. 3 (A/6703).

Noting that senior officials of the Organization have stated that, while the needs for external assistance for development have been increasing in recent years, bilateral and multilateral co-operation with the poor countries remains at inadequate levels,

Recognizing that the industrialized countries cannot be expected in the foreseeable future voluntarily to increase their assistance to the developing countries, in spite of all the exhortations and resolutions formulated and adopted by the Organization,

Recalling that Economic and Social Council resolution 1183 (XLI) requests the Secretary-General to undertake a study on economic factors affecting the ability of developed countries to transfer maximum financial resources to the developing countries, taking into account the increase in the national income of the developed countries,

Requests the Secretary-General:

(a) To prepare, as a supplement to the study requested in Economic and Social Council resolution 1183 (XLI), a further study on the feasibility of setting up a system of economic co-operation, which must be interdependent, based on the fixing of a contribution to be drawn progressively from the national income of each and every Member State, so that the funds thus obtained may supplement the internal efforts and savings of the developing countries in their earnest desire to accelerate the pace of their economic growth;

(b) To make the maximum use, for the purpose of this study, of whatever co-operation can be afforded by the Governments of Member States, the Trade and Development Board, the International Monetary Fund, the International Bank for Reconstruction and Development and all United Nations bodies he may deem it necessary to approach;

(c) To report on the study requested to the General Assembly at its twenty-fourth session, through the Economic and Social Council."

6. The representative of Panama revised the draft resolution (A/C.2/L.960/Rev.1) at the same meeting, rewording sub-paragraph (a) of the operative paragraph to read:

"(a) To prepare, as a supplement to the study requested in Economic and Social Council resolution 1183 (XLI), a further study on the feasibility of setting up a system of economic co-operation, based on the fixing of a progressive contribution from the national income of each and every Member State, so that the funds thus obtained may supplement the internal efforts and savings of the developing countries in their earnest desire to accelerate the pace of their economic growth;"

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7. A statement by the Secretary-General on the financial implications of the draft resolution (A/C.2/L.965) was circulated to the Committee.

8. At the 1132nd meeting, the Committee voted on the revised draft resolution (A/C.2/L.960/Rev.1), which was rejected by 27 votes to 3, with 62 abstentions.

II

9. At the 1129th meeting, the representative of Ghana, on behalf of the sponsors, Ghana, Nigeria, Pakistan, Sudan, Syria, the United Arab Republic and Yugoslavia, introduced a draft resolution (A/C.2/L.961) which read as follows:

"The General Assembly,

Recalling its resolution 2170 (XXI) of 6 December 1966,

Recalling further Economic and Social Council resolution 1183 (XLI) of 5 August 1966,

Reaffirming the need to progressively increase the flow of external resources to the developing countries both through multilateral and bilateral assistance programmes and through private capital transfers,

Noting with appreciation that some developed countries have already taken steps to increase the flow of resources to developing countries and to provide it on easier terms and conditions,

Noting with concern the decreased flow of resources from other developed countries and the lack of improvement in their terms and conditions,

Deeply concerned at the over-all decline in the flow of resources to the developing countries and the serious adverse effect of stringent terms and conditions,

Having considered the report submitted by the Secretary-General on factors affecting the ability of developed countries to provide resources to the developing countries (E/4375),

1. Notes with satisfaction the report of the Secretary-General on factors affecting the ability of developed countries to provide resources to the developing countries (E/4375);

2. Notes with interest the ideas put forward in that report, on the resource transfer targets and progress in their implementation, in particular, the following:

(a) The risk of conflict between volume and quality of transfers might be diminished by appropriate changes in the procedures and machinery for effecting the transfer of resources to the developing countries;

(b) The setting of a secondary volume target for the transfers to developing countries' net, not only of amortization, but also of income receipts;

(c) The establishment of a subsidiary target for transfers in untied cash;

3. Draws the attention of the developed countries to the following suggested measures contained in that report for overcoming the real constraints that limit the transfer of resources:

(a) Means to alleviate the budgetary constraint:

(i) Earmarking of revenues for foreign assistance;

(ii) Earmarking of savings on military expenditures for foreign assistance;

(iii) Establishment of a development fund outside the framework of the national budget;

(b) Measures for improving capital markets:

(i) Strengthening of the capital markets of the developed market economies;

(ii) Giving developing countries preferential access to capital markets;

(iii) Increasing the borrowing authority of funds or institutions engaged in financing development;

(iv) Tax incentives to encourage investment in the developing countries;

(v) Government guarantees of investment risks;

(c) Measures to insulate development finance from adjustment policies:

(i) Exemption of the developing countries from a measure that might be unduly restrictive, in particular, with regard to quantitative controls or disincentives designed to reduce private capital flows;

4. Requests the Secretary-General to submit to the General Assembly at its twenty-third session, through the Economic and Social Council at its forty-fifth session, a report on the implementation of resolution 1183 (XLI) and, in particular, on the feasibility of setting up an advisory service which could provide information to the developing countries on the sources of supply and the cost and quality of equipment needed for their development."

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10. At the 1131st meeting, the sponsors revised the draft resolution (A/C.2/L.961/Rev.1) by deleting from operative paragraph 4 the words: "and, in particular, on the feasibility of setting up an advisory service which could provide information to the developing countries on the sources of supply and the cost and quality of equipment needed for their development".

11. The draft resolution was again revised (A/C.2/L.961/Rev.2) at the 1135th meeting, as follows:

(a) The third paragraph of the preamble was reworded to read:

"Reaffirming the need to increase progressively, to the greatest extent possible, the flow of external resources to the developing countries both through multilateral and bilateral assistance programmes and through private capital transfers, and to ease the terms and conditions on which such resources are provided, in accordance with Economic and Social Council resolution 1183 (XLI)";

(b) The sixth paragraph of the preamble was deleted;

(c) A new paragraph was inserted between operative paragraphs 1 and 2, reading as follows:

"2. Draws the attention of the developed countries to the need to increase substantially the assistance which they provide in various forms to the developing countries both bilaterally and multilaterally";

(d) Operative paragraph 3 (now operative paragraph 4) was revised to read:

"4. Requests the developed countries to study the possibility of implementing the measures suggested in the report with a view to overcoming the factors which affect their ability to increase the transfer of resources to the developing countries";

(e) In operative paragraph 4 (now operative paragraph 5), the words "and on action taken in accordance with operative paragraph 4 above" were added at the end of the paragraph.

12. The following oral revisions were made at the same meeting:

(a) In operative paragraph 1, the words "with satisfaction" were replaced by the words "with appreciation";

(b) In operative paragraph 3, the words "with interest" were deleted.

13. The Committee then voted on the draft resolution (A/C.2/L.961/Rev.2), as orally revised, which was approved by 82 votes to none, with 8 abstentions (see paragraph 22 below, draft resolution I).

III

14. At the 1135th meeting, the representative of Norway, on behalf of the sponsors, Argentina, Brazil, Canada, Denmark, Ghana, Italy, the Netherlands, Nigeria, Norway, Pakistan, Sweden, Sudan, Turkey, the United Arab Republic, the United Kingdom of Great Britain and Northern Ireland and Yugoslavia, introduced a draft resolution (A/C.2/L.964), which read as follows:

"The General Assembly,

Recalling Economic and Social Council resolution 1272 (XLIII) of 4 August 1967 on the international flow of capital and assistance,

Recalling further Trade and Development Board resolution 37 (V) of 7 September 1967 on the replenishment of the resources of the International Development Association,

Noting with concern the continued delay in the replenishment of the resources of the International Development Association,

Reaffirms the appeal made in Economic and Social Council resolution 1272 (XLIII) and in Trade and Development Board resolution 37 (V) to Governments, members of the International Development Association, to treat the question of further increasing the resources of the Association as a matter of high priority."

15. Libya became a co-sponsor at the same meeting.

16. The Committee then approved the draft resolution (A/C.2/L.964) unanimously (see paragraph 22 below, draft resolution II).

IV

17. At the 1136th meeting, the representative of the United Arab Republic, on behalf of the delegations of Niger, Nigeria, Pakistan, Sudan, Syria and the United Arab Republic, introduced a draft resolution (A/C.2/L.966) which read as follows:

"The General Assembly,

Recalling its resolution 1938 (XVIII) of 11 December 1963 on the accelerated flow of capital and technical assistance to the developing countries and Economic and Social Council resolution 1088 B (XXXIX) of 30 July 1965 on the financing of economic development,

Recalling further its resolution 2169 (XXI) of 6 December 1966 on external financing of economic development of developing countries and Economic and Social Council resolution 1184 (XLI) of 5 August 1966 on the measurement of the flow of assistance and long-term capital,

Noting with interest the Secretary-General's progress report on the outflow of capital from developing countries (E/4376) and the report of the group of experts on the methodological problems related to the measurement of the flow of resources to developing countries (E/4327),

Noting that the various forms of outflow of capital from the developing countries have each their particular set of causes and consequences,

Concerned over the increasing rate of outflow of capital from the developing countries in particular in the form of debt servicing, amortization and dividend repayments which substantially reduces the net volume of external resources available to the developing countries,

Recognizing that it is in the interest of each developing country to be as fully informed as possible of the inward and outward movement of resources relevant to its own development effort,

Recognizing further that measurement of target fulfilment by the countries providing resources, and of the adequacy of external resources by the recipient developing countries depend on adoption of appropriate definitions of the various components of the flow and on the availability of the necessary data,

1. Draws the attention of the developed countries:

(a) To the need to make available their contributions of developmental resources on the easiest possible terms and conditions, i.e., longer repayment periods and lower interest rates so as to minimize the debt servicing burden on the balance of payments of the developing countries;

(b) To the advisability of extending, whenever the need arises, the same terms and conditions to those developing countries whose balance of payments situation should require rescheduling or consolidation of debts;

2. Requests the Secretary-General:

(a) To include in the regular report on the international flow of long-term capital and official donations, statistics of reverse flows assessing their significance in relation to total financial transfers and giving an analysis of factors affecting their flows, both in the countries where they originate and in the countries to which the funds are sent;

(b) To report to the twenty-third session of the General Assembly, through the Economic and Social Council, on the role that can be played by the United Nations bodies in securing agreement if necessary on the rescheduling or consolidation of debts;

3. Requests further the Secretary-General to provide, in co-operation with the organizations concerned in the United Nations family, such assistance as developing countries may need to improve the recording of resources inflows and outflows."

18. At the 1143rd meeting, the co-sponsors presented a revision of their draft resolution (A/C.2/L.966/Rev.1), which included the following changes:

(a) In the third paragraph of the preamble, the words "with interest" were deleted;

(b) In the fifth paragraph of the preamble, the words "in particular in the form of debt servicing, amortization and dividend repayments" were deleted;

(c) Operative paragraph 1 was revised to read as follows:

"1. Urges the developed countries:

(a) To make available their development assistance on the lowest possible rates of interest and the longest possible periods of repayment with the possibility of repayment in local currency or through the products of the recipient country so as to minimize the debt-servicing burden on the balance-of-payments of the developing countries;

(b) To consider the advisability of extending, whenever it is agreed that the need arises, similar terms and conditions to those mentioned in sub-paragraph (a) above, to the developing countries whose balance-of-payments problems and debt-servicing burden should require rescheduling or consolidation of debts;"

(d) In operative paragraph 2, sub-paragraph (a), the words "when those can be obtained" were inserted after the word "statistics";

(e) Sub-paragraph (b) of operative paragraph 2 was replaced by the following:

"(b) To take into account the recommendations of the group of experts on the methodological problems related to the measurement of the flow of resources to developing countries (E/4327) in his annual report on the international flow of long-term capital and official donations;"

19. At the same meeting, the co-sponsors announced a further oral revision, namely, the deletion of the last paragraph of the preamble. However, they subsequently decided to maintain that paragraph and stated that its language might be modified (see paragraph 20 (a) below).

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20. At the 1145th meeting, the Committee had before it a further revision (A/C.2/L.966/Rev.2) of the six-Power draft resolution, which introduced the following changes:

(a) The last paragraph of the preamble was reworded to read:

"Recognizing further that measurement of the volume of resources provided by the donor countries, and of the adequacy of external resources received by the developing countries, depend on adoption of appropriate definitions of the various components of the flow and on the availability of the necessary data,";

(b) Operative paragraph 1 was revised to read:

"1. Urges the developed countries:

(a) To ease the terms and conditions on which external resources are made available to developing countries in pursuance of Economic and Social Council resolution 1183 (XLI), so as to minimize the debt-servicing burden on the balance-of-payments of the developing countries;

(b) To consider extending, whenever it is agreed that the need arises, easy terms and conditions to developing countries whose balance-of-payments problems and debt-servicing burden should require rescheduling or consolidation of debts;"

(c) In operative paragraph 2 (b), the words "unanimously adopted" were inserted before the words "recommendations of the group of experts";

(d) In operative paragraph 2, a new sub-paragraph (c) was added, reading as follows:

"(c) To consult other international organizations concerned with statistics on the different forms of transfer of resources, with a view to arriving at a uniform system of statistics for these transfers;".

21. The Committee then voted on the revised draft resolution (A/C.2/L.966/Rev.2) as follows:

(a) Operative paragraph 1, on which a separate vote had been requested by the Union of Soviet Socialist Republics, was retained by 54 votes to none, with 9 abstentions;

(b) The draft resolution as a whole was adopted unanimously (see paragraph 22 below, draft resolution III).

RECOMMENDATIONS OF THE SECOND COMMITTEE

22. The Second Committee therefore recommends to the General Assembly the adoption of the following draft resolutions:

DRAFT RESOLUTION I

Flow of external resources to developing countries

The General Assembly,

Recalling its resolution 2170 (XXI) of 6 December 1966,

Recalling further Economic and Social Council resolution 1183 (XLI) of 5 August 1966,

Reaffirming the need to increase progressively, to the greatest extent possible, the flow of external resources to the developing countries both through multilateral and bilateral assistance programmes and through private capital transfers and to ease the terms and conditions on which such resources are provided, in accordance with Economic and Social Council resolution 1183 (XLI),

Noting with appreciation that some developed countries have already taken steps to increase the flow of resources to developing countries and to provide it on easier terms and conditions,

Noting with concern the decreased flow of resources from other developed countries and the lack of improvement in their terms and conditions,

Having considered the report submitted by the Secretary-General on factors affecting the ability of developed countries to provide resources to the developing countries,^{1/}

1. Notes with appreciation the report of the Secretary-General on factors affecting the ability of developed countries to provide resources to the developing countries;^{1/}

2. Draws the attention of the developed countries to the need to increase substantially the assistance which they provide in various forms to the developing countries both bilaterally and multilaterally;

^{1/} E/4375.

3. Notes the ideas put forward in the Secretary-General's report on the resource transfer targets and progress in their implementation, in particular, the following:

(a) The risk of conflict between volume and quality of transfers might be diminished by appropriate changes in the procedures and machinery for effecting the transfer of resources to the developing countries;

(b) The setting of a secondary volume target for the transfers to developing countries net, not only of amortization, but also of income receipts;

(c) The establishment of a subsidiary target for transfers in untied cash;

4. Requests the developed countries to study the possibility of implementing the measures suggested in the report with a view to overcoming the factors which affect their ability to increase the transfer of resources to the developing countries;

5. Requests the Secretary-General to submit to the General Assembly at its twenty-third session, through the Economic and Social Council at its forty-fifth session, a report on the implementation of resolution 1183 (XLI) and on action taken in accordance with paragraph 4 above.

DRAFT RESOLUTION II

Replenishment of the resources of the International
Development Association

The General Assembly,

Recalling Economic and Social Council resolution 1272 (XLIII) of 4 August 1967 on the international flow of capital and assistance,

Recalling further Trade and Development Board resolution 37 (V) of 7 September 1967 on the replenishment of the resources of the International Development Association,

Noting with concern the continued delay in the replenishment of the resources of the International Development Association,

Reaffirms the appeals made in Economic and Social Council resolution 1272 (XLIII) and in Trade and Development Board resolution 37 (V) to Governments, members of the International Development Association, to treat the question of further increasing the resources of the Association as a matter of high priority.

DRAFT RESOLUTION III

Outflow of capital from developing countries and measurement of the
flow of resources to developing countries

The General Assembly,

Recalling its resolution 1938 (XVIII) of 11 December 1963 on the accelerated flow of capital and technical assistance to the developing countries and Economic and Social Council resolution 1088B(XXXIX) of 30 July 1965 on the financing of economic development,

Recalling also its resolution 2169 (XXI) of 6 December 1966 on external financing of economic development of developing countries and Economic and Social Council resolution 1184 (XLI) of 5 August 1966 on the measurement of the flow of assistance and long-term capital,

Noting the Secretary-General's progress report on the outflow of capital from developing countries^{1/} and the report of the group of experts on the methodological problems related to the measurement of the flow of resources to developing countries,^{2/}

Noting that each of the various forms of outflow of capital from the developing countries has its particular set of causes and consequences,

Concerned over the increasing rate of outflow of capital from the developing countries, which substantially reduces the net volume of external resources available to the developing countries,

Recognizing that it is in the interest of each developing country to be as fully informed as possible of the inward and outward movement of resources relevant to its own development effort,

Recognizing further that measurement of the volume of resources provided by the donor countries and of the adequacy of external resources received by the developing countries depends on adoption of appropriate definitions of the various components of the flow and on the availability of the necessary data,

1. Urges the developed countries:

1/ E/4374.

2/ E/4327.

(a) To ease the terms and conditions on which external resources are made available to developing countries, in pursuance of Economic and Social Council resolution 1183 (XLI), so as to minimize the debt-servicing burden on the balance of payments of the developing countries;

(b) To consider extending, whenever it is agreed that the need arises, easy terms and conditions to developing countries whose balance-of-payments problems and debt-servicing burden should require rescheduling or consolidation of debts;

2. Requests the Secretary-General:

(a) To include, in the regular report on the international flow of long-term capital and official donations, statistics when those can be obtained of reverse flows, assessing their significance in relation to total financial transfers and giving an analysis of factors affecting their flows both in the countries where they originate and in the countries to which the funds are sent;

(b) To take into account in his annual report on the international flow of long-term capital and official donations, the unanimously adopted recommendations of the group of experts on the methodological problems related to the measurement of the flow of resources to developing countries;^{2/}

(c) To consult other international organizations concerned with statistics on the different forms of transfer of resources, with a view to arriving at a uniform system of statistics for these transfers;

3. Further requests the Secretary-General to provide, in co-operation with the organizations concerned in the United Nations family, such assistance as developing countries may need to improve the recording of the inflow and outflow of resources.
