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REPORT OF THE ECONOMIC AND SOCIAL COUNCIL

Convening of an international conference on development financing

Note by the Secretary-General

1. The Economic and Social Council, in its decision 1991/274 of 26 July 1991, decided to take note of the proposal made by the Secretary-General in his statement at the opening of the second regular session of 1991 of the Council, on 3 July, that consideration be given to the convening of an international conference on development financing (see E/1991/SR.16). The Council also decided to refer the matter to the General Assembly at its forty-sixth session for further consideration.

2. The proposal of the Secretary-General is circulated to facilitate such consideration (see annex).

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ANNEX

Peace, security, growth and development: the global need for capital

1. Under its Charter, the United Nations has been entrusted with the responsibility to promote social progress and better standards of living in larger freedom. The work of the United Nations in the economic and social fields, as envisioned in the Charter, cannot be separated from the tasks of the Organization in the domain of peace and security, as underscored in recent years by the emergence of a host of global problems. It has become clear that a viable system of collective security cannot be constructed without a sustained improvement in the human condition.

2. Recent intergovernmental deliberations have emphasized the need to revitalize growth and development and have noted that adequate levels of development finance - both concessional and non-concessional - are crucial elements to achieve this. The Declaration on International Economic Cooperation, in particular the Revitalization of Economic Growth and Development of the Developing Countries (resolution S-18/3), adopted by the General Assembly at its eighteenth special session, and the International Development Strategy for the Fourth United Nations Development Decade (resolution 45/199, annex) also emphasized this need.

3. Since the early 1970s, negative external shocks and inadequate domestic policies have produced an economic environment unconducive to capital formation and development in many countries. The deterioration in economic and human conditions in many developing countries have led to war, poverty, health and ecological problems, and the number of refugees and displaced persons has reached overwhelming dimensions. Over 1 billion people now live in absolute poverty in the developing world. About 30 million Africans risk malnutrition and starvation from the famine spreading across Africa. 1/ The needs of a significant number of countries have become larger, not smaller.

4. During the past two years the world has witnessed dramatic political and economic changes. The pressing need to modernize the economies of Central and Eastern Europe, the continuing large requirements of the developing countries, in particular of those dependent on multilateral lending institutions, and the imperative to ensure the survival of our habitat are generating a rapidly increasing demand for financial resources on a global scale. Countries that in the not too distant past were large creditors are now in need of capital. Germany, which before unification was a large capital exporter, is now also involved in financing the economic transformation in Eastern Europe. It has been estimated that the cost of modernizing eastern Germany alone could exceed $300 billion and that the cost of rebuilding Eastern Europe could reach $2 trillion over the next decade. Saudi Arabia and Kuwait, two large capital exporters before the Persian Gulf war, now have substantially increased financial requirements and are resorting to borrowing on the capital markets.

5. The new and expanded requirements for capital could affect the developing countries in a particularly acute manner since their relative position in the world economy has been deteriorating for some time. World trade has been growing faster than exports and imports of these countries. While foreign direct investment has quadrupled in the 1980s the share of the developing countries has decreased sharply. Private bank lending to the highly indebted countries practically stopped at the beginning of the debt crisis in 1982. For almost a decade now the indebted countries as a whole have been transformed into capital exporters. A net inflow of resources to the 15 largest indebted countries amounting to $20 billion in 1981 was converted into an outflow of $24 billion in 1983 and followed by large outflows throughout the 1983-1990 period. This has obviously imposed major adjustment in these countries. The accumulated effect has been an ex ante imbalance between savings and investment, that is, a large excess demand for capital.

6. As a result, the International Monetary Fund (IMF) has estimated that the additional demand for savings might well exceed $100 billion in 1991 and thereafter. Unless far-reaching measures are rapidly implemented, the imbalance will be corrected ex post by an increase in the rate of interest. Higher interest rates would reduce investment and growth everywhere and have a devastating effect on the large number of indebted countries of Latin America, Africa and Eastern Europe.

7. The real challenge ahead is to agree on a strategy to correct the ex ante imbalance between savings and investment and thus allow all countries to carry out and attract the investment necessary to grow, improve the social well-being of their citizens and consolidate pluralistic political systems.

8. Experience indicates that both developed and developing countries have had limited success with supply side measures to increase their savings rate. Given that the supply of savings is rather inelastic, that commercial lending to developing countries is limited to a few countries, that this is also true for direct foreign investment, and that domestic investment and multilateral finance continue to be insufficient, there is a need to identify sources through which the necessary funds can be made available to finance the vastly larger growth and development needs of the world economy.

9. A positive transformation of the world economy requires a concomitant strengthening of multilateral financial institutions. A very significant increase in the financial resources of the IMF, the World Bank, the International Fund for Agricultural Development (IFAD), the regional development banks and the development funds and agencies of the United Nations is crucial if these institutions are to effectively support structural adjustment, fight poverty, continue to provide concessional assistance to low-income countries, provide financial resources for physical and institutional infrastructure and for debt and debt-service reduction schemes in the developing and Central and Eastern European countries. Such a strengthening would also facilitate the renewal of private lending to and investment in developing countries and those in transition to market economies.

10. If growth and development are to be the first priority for the 1990s, and massive migratory movements are to be avoided, expenditures need to be reorganized in such a way that funds are made available to pursue these goals. Changes in ideology and economic thinking now provide further opportunities to reallocate expenditure from one use to another, thus ensuring that total demand for capital - and hence interest rates - would not be affected.

11. There are two areas that lend themselves readily to freeing resources for more productive use. First, both developed and developing countries could reduce more significantly and more rapidly their military expenditures to release funds for civilian development purposes. It has been estimated that the confrontation between NATO and the Warsaw Pact led, in Europe alone, to annual outlays of $500 to $600 billion in armaments and total expenditure on defence continues to exceed double that amount in developed countries. The developing countries themselves spend close to $200 billion a year in arms and other military expenditures. Total military expenditures absorbed 5 per cent of world resources annually from 1972 to 1988. During this period military expenditure accounted for about 5.5 per cent of developing countries' combined GDP and 20 per cent of central government expenditure. 2/ This amount is of a similar order of magnitude to that of their total expenditure for health and education. The military expenditure of these countries has quintupled in constant dollars between 1960 and 1988, increasing at a rate twice that of income per capita. 3/

12. Second, countries could decrease the amount they spend on protectionist measures. Both developed and developing countries spend an unwarranted amount of resources on account of protectionism and this - in addition to the fiscal expense - creates distortions that lower the level of production, thus leaving less resources available for development purposes. The annual report of the Organization for Economic Cooperation and Development (OECD) on agriculture states that the total cost of supporting agriculture in the 24 member countries of OECD has climbed by 12 per cent to $300 billion in 1990. Consumers bear part of the cost by paying higher prices for agricultural products and also as taxpayers. If the burden of subsidies decreased, more resources would be available for investment and producers would be forced to become more efficient. In addition to the direct effect of reducing the fiscal burden of subsidies, a decrease in these payments would enable developing countries to increase their export earnings, eliminating distortions and promoting growth.

13. It was with these problems and ideas in mind - and the complexity of issues involved in analysing them - that the Secretary-General proposed at the second regular session of 1991 of the Economic and Social Council that the international community consider the convening of an international conference on the financing of development in order to develop a coherent and agreed strategy to do so. Such a conference could initiate its work in the fall of 1992, after the conclusion of the eighth session of the United Nations Conference on Trade and Development and the United Nations Conference on Environment and Development. It is suggested that the World Bank and the International Monetary Fund be closely associated with its work.

Notes

1/ Food and Agriculture Organization of the United Nations, "Food supply situation and crop prospects in Sub-Saharan Africa", Special report, No. 2 (June 1991).

2/ Hewitt, D. P., "Military expenditure: international comparison of trends", IMF Working Paper, WP/91/54 (May 1991).

3/ Ruth Leger Sivard, World Military and Social Expenditures: 1989 (Washington, D.C.: World Priorities, 1989). Cited in McNamara, R. S., "The post-cold war world and its implications for military expenditures in the developing countries", Address to the World Bank Annual Conference on Development Economics (Washington, D.C., 25 April 1991).
