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Macroeconomic policy questions: financing of development, including net transfer of resources between developing and developed countries

Sources for the financing of development

Report of the Secretary-General

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I. Introduction

1. The present report was prepared in response to General Assembly resolution 50/93 of 20 December 1995, in which the Assembly decided to consider at its fifty-second session the convening of an international conference on the financing of development and requested the Secretary-General to prepare a report on substantive areas.

2. Since the adoption of resolution 50/93, there have been a number of related developments. In annex I, paragraph 88, of its resolution 50/227 of 24 May 1996 on further measures for the restructuring and revitalization of the United Nations in the economic, social and related fields, the General Assembly indicated that the Economic and Social Council should schedule periodically a high-level meeting at a time proximate to the semi-annual meetings of the Breton Woods institutions. Subsequently, in adopting the Agenda for Development, the Assembly indicated that due consideration should be given to modalities for conducting an intergovernmental dialogue on the financing of development (Assembly resolution 51/240 D, annex, para. 287). In paragraph 41 of the report of the Secretary-General, entitled "Renewing the United Nations: a programme for reform" (A/51/950), it was proposed that a high-level one-week segment of the General Assembly be held and that the first such session might be on international financing for development.

3. The present report focuses on the sources of finance for development and the private and official mechanisms that transform finance into investment. However, reflecting the broad nature of the subject and the wider procedural considerations, complementary material, in addition to that referred to above, is contained in a number of other reports prepared for the present session of the Assembly, notably the reports of the Secretary-General on global financial integration (A/52/406) and on the debt situation of the developing countries as at mid-1997 (A/52/290). For its part, following its most recent high-level segment, the Economic and Social Council adopted agreed conclusions, several of which also pertain to the financing of development.[1]

II. Sources of finance for development

4. Whether world savings are adequate to meet the growing financial demands of the developed, developing and transition economies has been an international concern for a number of years. The debate has been about the pressure on world savings that could arise from the combination of public-sector deficits in industrialized economies and the continually expanding investment demand in developing and transition economies. A savings shortfall, it is feared, could put upward pressure on world real interest rates, which, among other things, could weaken overall economic activity and discourage necessary investment. From a development perspective, the issue can be addressed in terms of the savings generated domestically and the prospective transfers of financial resources from abroad.

A. Domestic savings of developing countries

5. The developing economies, like all economies, have mainly relied upon their domestically generated savings to finance their investment (see table 1). In the 1990s, they have been able on the whole to invest more than their own saving permitted, owing to positive net transfers of resources from abroad. But these net transfers have on balance averaged less than 1 per cent of their gross domestic product (GDP). The economies of eastern and southern Asia, which have the highest average investment rates among all developing economies, also have the highest average saving rates. Net transfers to this region have been less than 1.5 per cent of GDP. In China, the country with the highest investment rate, domestic savings exceed investment. Net transfers to Latin America in the 1990s have been positive, but relatively small, after having been negative in the 1980s. Africa has required substantial net transfers (relative to its GDP) owing to declining domestic saving rates during the long period of shrinking per capita income, which has only recently been arrested.[2]

6. The high saving rates in some developing economies suggest that savings could be increased in the countries with lower savings. The difficult question is how to bring that about. First, sustained and high growth of income is an important factor in raising saving rates. Thus, policies to spread such growth to more developing countries would create the potential for a virtuous cycle of income growth generating more savings for further growth. Secondly, fiscal deficit reduction — a decline in public dissaving — generally raises national savings.[3] A third factor is financial sector liberalization and reform, although such policies have been found to have different effects on saving rates of countries at different levels of income. The effect on savings in low-income countries, in particular, appears to be negligible, primarily because low-income individuals tend not to reduce consumption and save more when interest rates rise.[4] A further factor affecting saving in developing countries is the changing age structure of their populations.

Table 1
Investment and savings of developed and developing countries, 1980-1995
(Percentage of GDP)

	Gross domestic investment				*Gross domestic saving*			
	1980	*1985*	*1990*	*1995*	*1980*	*1985*	*1990*	*1995*
Developing economies	25.9	23.3	25.2	27.3	29.0	23.9	25.9	26.7
Latin America	24.8	19.1	19.8	19.7	23.6	23.8	22.1	19.5
Africa	25.1	20.7	22.6	21.8	30.0	20.8	19.3	16.7
Western Asia	23.7	20.7	23.1	22.0	40.9	19.5	24.3	24.2
Eastern and southern Asia[a]	26.1	24.1	29.3	31.9	23.8	24.2	28.9	30.4
China	35.2	37.8	34.7	40.5	34.9	33.7	37.5	42.0
Developed economies	23.4	21.4	22.2	21.2	23.7	21.8	22.3	21.9

Source:
World Economic and Social Survey 1997 (United Nations publication, Sales No. E.97.II.C.1 and Corr.1), tables A.5 and A.11.

[a] Excluding China.

As a result of declining birth rates, the proportion of the population that is under 15 or over 65 years of age is projected to decline significantly[5] and that can be expected to boost savings rates. In many African countries, however, the positive effect of this demographic change will be more limited for the time being because the decline in birth rates has been relatively small and more recent.

B. International resource transfers to developing countries

1. Savings for international transfer and their acquisition by developing countries

7. The developed economies as a whole usually save more than they invest domestically and transfer the surplus abroad in the form of public and private investments, loans and grants. In 1993-1995, the net transfer averaged almost 0.7 per cent of their aggregate GDP, most of which was absorbed by developing countries.[6] Some of the developed countries, notably the United States of America, have absorbed substantial net resource transfers from other countries, while other countries, notably Japan, Germany and some other Western European countries, have been large net suppliers.[7] But as the amounts supplied have exceeded the amounts absorbed in most years, the aggregate flow has largely been outward.

8. The degree to which the supply of savings from the developed world will continue to be available to supplement the domestic savings of the developing countries depends primarily on future growth in savings and investment in the developed countries. The gross domestic saving rate of developed economies in the first half of the 1990s averaged over 21.5 per cent, which is comparable to the rate in the mid-1980s. Although the saving rate declined in the recessionary early years of the 1990s, this was reversed by 1994. The largest swing was in the public sector, as government deficits swelled during the economic slowdowns. However, a combination of economic recovery in some countries and deficit reduction policies generally helped reduce the deficits, and by 1994 the developed country governments in aggregate were again a source of saving (i.e., current revenues exceeded current expenditures). Private savings, largely reflecting cyclical developments, also reversed its decline in 1992 and rose annually between 1992 and 1994.

9. The rapid growth in public expenditures that gave rise to growing fiscal deficits was only partly related to cyclical developments. There were also longer-run trends operating that have come to be widely regarded as unsustainable. This is the reason that fiscal consolidation programmes have been widely instituted and further deficit reduction is expected in coming years, at least in the short run.

10. Despite fiscal consolidation efforts, growing pressures will be placed on the public sector budgets of the developed

economies over a longer horizon by the rapid ageing of their populations. Public spending on items such as pensions and health care are currently expected to increase sharply as the portion of the population in retirement increases. Moreover, the growing share in the population of the elderly who tend to have lower rates of saving could lead to a decline in overall private saving rates. Indeed, the current savings of individuals anticipating retirement in the next century directly account for some of the present surge in portfolio investment in emerging markets. Current demographic trends suggest that the pressure of an ageing population on both public budgets and private saving rates are not imminent, but they could become significant in 2010 and beyond.[8]

11. In the short to medium term, developed countries are likely to have financial resources available for transfer to developing countries at approximately the current real rates of interest. By the second decade of the next century, however, when net transfer capacities of developed countries are declining significantly, more developing countries may have become net sources of international savings. The net outcome in the long run is therefore hard to project. The more urgent consideration is to make as many developing countries as possible into attractive placements for the world's international savings flows in order to spread economic growth now and thereby bolster the global supply of savings later.

2. Financial composition of the net transfers to developing countries

12. Net-debtor developing countries received net financial transfers (i.e., net inflows after payment of interest and dividends and net domestic financial outflows) of $87 billion in 1996.[9] The overall net transfer in 1996 was similar to that of earlier years in the 1990s. Of the overall net transfer, $35 billion was used to finance imports of goods and services and the rest was added to official reserves. By the end of 1996, total official reserves in these countries had reached $465 billion, equivalent to the funds needed for imports of goods and services and for foreign interest and profit payments for almost four months.

13. There was a net transfer of official resources out of the developing countries in 1996, as the new inflows of official loans and grants were less than the outflows of interest and principal. The net outward transfer through official flows was an anomaly caused by Mexico's advance repayment of some of its earlier emergency loans from official creditors, as these loans were refinanced through private borrowing. Even so, the trend in the net transfer through all sources of official flows taken together and measured in current dollars has remained one of slow decline.

14. The large volume of private financial transfers to developing countries in 1996 was associated, in part, with the moderate interest rates in developed countries and continuing diversification and rapid growth of institutional investment portfolios, although foreign direct investment (FDI) has also been on a strong upward trend. The spread of sound national economic policies and strong economic growth in a number of developing countries were major factors encouraging these inflows.

15. The distribution of private financial flows to individual countries has remained highly uneven. Ten countries accounted for over three quarters of the total flow in 1996. Also, net private financial flows constituted a much smaller percentage of gross national product (GNP) in low-income countries (1.5 per cent in a World Bank grouping that excludes China and India) than in middle-income countries (3.2 per cent).[10] The exclusion of most low-income developing countries from those receiving significant amounts of international private finance remains a special concern, as it leaves them dependent on increasingly limited official financial flows.

16. The experience of Africa in this regard is frequently contrasted with that of Asia and Latin America. With the return to private borrowing of a number of heavily indebted countries, net private transfers to Latin America resumed at the beginning of the present decade and became the dominant source of their net financial transfer. They have remained strong even after the temporary setback of the Mexican financial crisis in 1994. In eastern and southern Asia, net private transfers, albeit more heavily weighted towards FDI, have dominated net financial transfers in the 1990s.

17. In Africa, after more than a decade of net withdrawal of private funds, the trend has finally begun to change. There has been some increase of private financial flows to the region in the past two years, although from a very small base. Progress in macroeconomic stabilization and economic reform, financial liberalization, the creation of stock exchanges and the acceleration of privatization programmes in a number of African countries have begun to attract foreign inflows, although higher rates of return than in other developing regions are still demanded by investors. These private flows have been concentrated in a small number of countries (principally, Algeria, Côte d'Ivoire, Egypt, Ghana, Morocco, Nigeria, South Africa and Tunisia). The fastest growing financial flows have been portfolio investment and commercial bank loans, although loans have been

particularly concentrated in South Africa. Foreign direct investment still constitutes only about one fifth of net private flows, and is highly concentrated in the energy and mining sectors. However, with accelerated privatization in a number of countries, both portfolio and direct investment can be expected to rise further.

18. On the whole, FDI has become the largest component of private financial flows to developing countries, growing almost fourfold in the 1990s. This is important because, in addition to being a source of finance, FDI can be a means of technology transfer and access to international export markets. The rapid growth of FDI reflects the increasing globalization of production of transnational corporations, on the one hand, and, on the other hand, the economic reforms in a growing number of developing countries, particularly as regards regulation of foreign investment and trade and the privatization of public enterprises.

19. For countries that do not yet enjoy sufficient access to private flows and in order to assist developing countries more generally in investing in areas that do not entail "bankable" projects (such as anti-poverty programmes), official development finance remains a primary source of external resources. However, most of the flows under the standard operations of the multilateral development banks are originally private funds. The basic mechanism in the World Bank and the regional development banks is that they sell their own bonds to private investors and on-lend the proceeds to developing countries at slightly higher interest rates. As the bonds of the institutions are backed by the Governments that are their shareholders, the bonds are deemed to have low risk. Most borrowers would be unable to raise comparable long-term finance under their own guarantee. The multilateral development banks also help mobilize private funds for investment in jointly financed development projects. Direct multilateral participation provides an implicit and sometimes explicit guarantee against risk. A separate mechanism to encourage private flows is the sale of multilateral investment insurance against non-commercial risks to direct investors in developing countries, as provided by the World Bank through its Multilateral Investment Guarantee Agency (MIGA).[11]

20. All the international mechanisms noted above pertain to flows of funds under near-commercial conditions. Others are highly concessional loans or grants that come directly or indirectly from the budgets of donor countries. Most of the countries that receive these latter flows are at a relatively early phase of development and only have the capacity to absorb such financing on highly concessional terms. Yet, with the end of the cold war and with the higher priority in donor countries for fiscal consolidation, there has been a reassessment of official development assistance (ODA) commitments in certain donor countries. In addition, financing needed for emergencies and humanitarian assistance has diverted considerable funding from regular development programmes since 1990.[12]

21. ODA in 1996 from member countries of the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD) was $55.1 billion, almost $4 billion less than in 1995. This represents a decrease of 4 per cent in real terms from 1995, following a decline of 9 per cent that year (see table 2). Aid from other sources is small, albeit growing for certain new developing country donors; however, it totalled only about 1.5 per cent of the DAC effort in 1995.[13] As a share of the combined GNP of DAC member countries, ODA was also at a record low in 1996, falling to only 0.25 per cent. Four countries (Denmark, the Netherlands, Norway and Sweden), as in previous years, exceeded the United Nations aid target of 0.7 per cent of GNP in 1996. While the ODA flows of certain donors have been declining in the 1990s, the United States being a particular case in point, the largest decline in 1996 was on the part of the largest donor, Japan, whose ODA dropped by 25 per cent in real terms. While this decline was primarily attributable to transitory factors, longer-term declines can also be expected, based on the approved Government budget.

22. The consequences are acute for the least developed countries, which remain heavily dependent on ODA for external financing. ODA flows from DAC member countries to least developed countries stagnated in the first half of the 1990s and declined markedly in real terms, particularly in 1995.[14] As a proportion of the combined GNP of donor countries, ODA flows to the least developed countries declined steadily from 0.09 per cent in 1992 to 0.06 per cent in 1995, far below the United Nations aid target for those countries of 0.20 per cent of donor GNP.

23. The contraction of aid budgets has created special difficulties for multilateral institutions. Whereas contributions to some agencies, such as the United Nations Development Programme, are voluntary, in other cases donors agree to fixed burden-sharing arrangements. It is problematic when a major donor cuts back its contributions to any agency, but it is worse when such a cutback limits the funding of the agency by the other donors. Thus, to overcome the adverse consequences for the replenishment of some funds, new approaches to financing have been sought.

24. One approach was adopted in the Fourth Replenishment of the International Fund for Agricultural

Table 2
Official development assistance of member countries of the Development Assistance Committee, 1980-1996[a]

	ODA/GNP (Percentage)			ODA volume (Annual percentage change)			ODA amount (Millions of dollars)
	1980-1984 average	1985-1989 average	1996	1990[b]-1995	1995[c]	1996[c]	1996
Australia	0.48	0.42	0.29	2.5	5.2	-15.1	1 093
Austria	0.29	0.23	0.28	9.3	1.2	-14.0	640
Belgium	0.56	0.46	0.35	-3.9	23.1	-6.4	937
Canada	0.45	0.47	0.31	-0.6	-9.2	-15.4	1 782
Denmark	0.76	0.89	1.04	3.3	-2.6	10.5	1 773
Finland	0.29	0.54	0.34	-14.5	8.1	9.3	409
France	0.53	0.59	0.48	0.8	-12.2	-11.3	7 430
Germany	0.46	0.41	0.32	-0.9	-4.5	3.8	7 515
Ireland	0.20	0.21	0.30	17.4	29.7	14.5	177
Italy	0.20	0.37	0.20	-9.7	-42.6	33.9	2 397
Japan	0.31	0.31	0.20	0.2	1.2	-24.7	9 437
Luxembourg	0.20	0.18	0.41	14.4	-5.9	21.6	77
Netherlands	1.01	0.97	0.83	-0.8	10.8	6.2	3 303
New Zealand	0.28	0.26	0.21	2.7	-1.2	-7.3	122
Norway	0.97	1.09	0.85	1.1	-4.4	3.1	1 311
Portugal	0.03	0.16	0.21	8.3	-25.0	-15.6	221
Spain	0.09	0.10	0.22	10.1	-8.2	-8.6	1 258
Sweden	0.85	0.89	0.82	-1.8	-16.8	7.6	1 968
Switzerland	0.27	0.31	0.34	3.0	-5.9	-1.6	1 021
United Kingdom	0.37	0.31	0.27	1.8	-6.5	-0.8	3 185
United States	0.24	0.20	0.12	-4.4	-27.6	20.6	9 058
Total	**0.34**	**0.33**	**0.25**	**-0.9**	**-9.4**	**-4.2**	**55 114**

Source: Development Assistance Committee of the Orgnisation for Economic Cooperation and Development.

[a] Data for 1996 are preliminary.

[b] 1994 exchange rate and prices.

[c] Prices and exchange rates of previous year.

Development (IFAD) in November 1996. Originally, there had been a rigid three-category system of membership in IFAD (OECD countries, member countries of the Organization of the Petroleum Exporting Countries and other developing countries). This was changed into a more flexible structure in which members will have two types of votes in IFAD, equal membership votes and votes based on the size of their contribution.

25. In the case of multilateral development banks, which operate non-concessional lending programmes as well as concessional ones, some of the profits from the non-concessional lending activities are now being redirected to concessional lending. This was done, for example, in 1996 in the Eleventh Replenishment of the International Development Association (IDA) and in 1997 in the Seventh Replenishment of the Asian Development Fund at the Asian Development Bank (in the latter case, provision was also made for increased contributions from some developing countries in Asia). One consequence of tapping profits for use in the concessional facilities, however, is it prevents the banks from sharing the benefits of their earnings with their non-concessional borrowers, as in the form of lower costs and charges. Clearly, there are limits to this mechanism.

III. Mobilizing financial resources

A. The need for an enabling environment

26. The most effective way for developing economies to capture international savings is to adopt policies that enhance their own domestic capital formation and thus their own savings as well. These are largely matters for domestic policy design. However, many of the steps necessary for the creation of such an enabling environment are beyond the control of individual developing countries and require international policy efforts.[15]

27. The domestic policies required for this purpose should aim, *inter alia*, to establish and maintain a stable macroeconomy, including sustainable levels of domestic and external indebtedness. For those countries whose past experiences led to the build-up of an excessive foreign debt overhang, national policy by itself generally will not suffice to return the country to a sustainable debt situation and international assistance to alleviate the debt burden is required.[16]

28. In addition, adequate physical and social infrastructure are prerequisites for an environment conducive to long-term investment commitments, and these, too, often warrant international assistance to finance and sometimes also to help design. Policies should also seek to ensure that investments are made in a manner consistent with national and international objectives of economic and social development, which are typically elaborated in social and economic development plans and programmes.

B. Policy for the domestic financial sector

29. The financial sector links those needing financial resources and those with a surplus. It thus plays an essential role in the mobilization of financial resources for development. A sound financial system — where the banking system is secure and mechanisms are developed for long-term financing needs — is crucial to the funding of productive investments.

30. The bulk of the funds in the financial sector, however, are used for short-term needs, as for working capital, international trade and so on. Commercial banks are the primary financial intermediary for such activities, although financial markets have increasingly played a role for large borrowers, even in developing countries.[17] Long-term finance is provided by financial institutions and through markets, increasingly including equity markets in developing countries. Government and/or government-owned financial institutions have provided funds for long-term investment and intervened to a greater or smaller degree in the operation of the private financial sector in most countries. However, the major direction of policy in this sector since the 1980s has been to reduce the role of government.[18]

31. Developing countries have decontrolled interest rates, reduced government-directed credit, developed new instruments for long-term investment financing and sought to build a more effective regulatory and supervisory structure. Financial liberalization, in combination with decontrol of international financial transactions in some countries, has also increased the degree of integration into the global financial market. The net result has been, on the one hand, an improved allocation of financial resources, and on the other hand, the exposure of still-fragile financial systems to strong speculative pressures that have frequently led to financial crises.

32. Weak prudential regulation and supervision, particularly in the face of poor lending practices, has emerged as a major factor undermining the financial sector. In several countries, liberalization of external financial flows was coupled with high local interest rates. These attracted large inflows of "hot" money that financial institutions placed in questionable investments, thereby raising the

overall riskiness of their loan portfolios. In several cases, the surge in liquidity went into unproductive and speculative ventures, leading to a rise in non-performing loans and increased risk of insolvency. Sometimes, the cracks in the financial system were revealed and a crisis provoked by a sudden movement of funds abroad, creating a grave liquidity problem if the banking system had low and poorly monitored reserve ratios.

33. As a result of several instances of domestic financial crisis in developing countries in recent years and the increasing desire to integrate these economies into the international financial system, international groups of financial regulators have been seeking to develop agreed standards for financial sector supervision, including the development of a set of core principles for effective banking supervision and a strategy for financial stability in emerging market economies.[19]

34. Even as the formal financial sector develops and is strengthened, it is rare that it adequately serves the entire economy. In particular, small-scale borrowers may be overlooked, leaving them to rely on an informal financial sector that thus continues to play a role in financial intermediation in most developing countries. "Moneylenders", while famous throughout history for taking advantage of their clients, have low transaction costs in channelling credit to small-scale production units (artisans, self-employed traders and small farmers), which usually have no collateral and require very small amounts of credit. However, there has been an increasing international focus on fostering institutional innovations in microfinancing. For example, lending to small groups of borrowers in a single community has increasingly been recognized as an efficient mechanism for providing finance for production to the poorer segments of society.[20]

IV. Development and its financing in the new millennium

35. The 1990s have seen further evolution in thinking about the nature of development, to the extent that reference is sometimes made to "the new global consensus on development". This new "consensus" emerged both from the development experiences of past decades and as a result of discussions on development issues, including those that took place as a result of the sequence of United Nations global conferences of the first half of the decade. The consensus is reflected in a number of national and international policy statements, the most recent and most comprehensive example being the Agenda for Development adopted by the General Assembly on 20 June 1997 (resolution 51/240, annex).

36. For its part, the Development Assistance Committee of OECD adopted in 1996 a new statement of goals to guide the future development of ODA of its member countries.[21] In these guidelines, DAC supplemented its traditional targets for flows of aid with targets regarding outcomes. The new goals focus on poverty reduction in developing countries and specify targets in social and environmental areas to be met by 2005 and 2015, drawn primarily from the international conferences held under United Nations auspices in the 1990s.

37. Concurrently with, and partially related to, these new currents in development thinking and practice, there have been even more profound changes in the volume and nature of world financial flows. The most dramatic change has been the explosion of international movements of private capital, in particular the increased participation of a number of developing countries in these flows. The increased role being given to market forces in the development process and the consequent liberalization and deregulation of markets in many developing countries have stimulated large increases in foreign direct investment and other private capital flows to a number of developing countries.

38. At the same time, aid fatigue and fiscal stringency in the developed countries, both related to increasing doubts about the efficacy of the State as an instrument of development, have combined to produce the downward trend in the volume of ODA identified above. The result has been a shift in the composition of flows of finance for development from the public to the private sector. Moreover, within official flows, recent years have seen an increasing proportion being allocated to immediate humanitarian needs, to the detriment of allocations for longer-term development purposes.

39. The total net transfer of resources to all developing countries has increased dramatically in the past decade. However, the nature, distribution, composition, terms and conditions of these flows have also changed, raising the question of whether the new pattern of flows is consistent with the international community's new consensus on development and appropriate to the needs of the developing countries. One universally recognized shortcoming in the growth of private transfers is that it has been restricted to a limited, although slowly increasing, group of countries. For some countries, increased private inflows have replaced decreases in ODA in financial terms; in other instances, such has not been the case and declining net financial transfers have become a constraint on development.

40. Even if transfers are maintained or increased in financial terms, the changing composition of total flows to a developing country is likely to have development implications. Because of the various inefficiencies ascribed to public sector activities, a shift from public to private financing is likely to be beneficial in many circumstances. However, private financing is not necessarily attracted to all the activities that are priorities for development, including many of those required to create the enabling environment to attract private flows. This applies, for example, to expenditures with either long pay-off periods (such as physical infrastructure) or with returns that are difficult to quantify in financial terms (such as health) or both (education). Private capital has a role to play in all these areas, but a large part of the increase in private capital flows to developing countries to date has taken the form of portfolio capital and short-term flows. These do not necessarily respond to development priorities and, because of their volatility, can have destabilizing consequences. There remains a substantial need for ODA, particularly for the poorer countries.

41. Major donors have recently reaffirmed the importance they place on reaching the poorest countries.[22] Nevertheless, the present flow of concessional resources to these countries tends to be less than is widely considered desirable. For example, total flows to the least developed countries have consistently been less, for the donor countries as a group, than the target of 0.2 per cent of their GNP. Similarly, the international community has relatively recently reached agreement on the means of addressing the longstanding external debt problems of the poorest countries, but the full amount of the resources estimated to be required to implement the Heavily Indebted Poor Countries Initiative have not yet been secured. Equally, the volume of resources mobilized for successive replenishments of IDA in recent years has been less than proposed.

42. The General Assembly may wish to consider means of addressing these and other dichotomies between the international community's views regarding development needs and priorities and the present pattern of global resource flows.

Notes

[1] A/52/3; to be issued as *Official Records of the General Assembly, Fifty-second Session, Supplement No. 3* (A/52/3/Rev.1), chap. II.

[2] See *World Economic and Social Survey, 1997* (United Nations publication, Sales No. E.97.II.C.1 and Corr.1), chaps. I and II.

[3] An important caveat: if deficit reduction is brought about in such a way as to cause aggregate income to contract or stagnate, private saving will fall and the net effect of the fiscal contraction on total domestic savings would be smaller than otherwise (for an analysis of the practice of fiscal reform, see *World Economic and Social Survey, 1997 ...*, part two).

[4] See, for example, Masao Ogaki, Jonathan Ostry and Carmen Reinhart, "Saving behaviour in low- and middle-income developing countries", IMF Working Paper 95/3, January 1995.

[5] According to United Nations population projections, this ratio in developing countries will decline from 39.1 per cent in 1995 to 37.8 per cent in 2000 and 36.1 per cent in 2005 (see *World Population Prospects: The 1996 Revision*, annex II (forthcoming)).

[6] These are aggregate flows, not ODA flows, which are far less, as discussed below; also the data presented in this section are on a national-accounts basis, not a balance-of-payments basis.

[7] See *World Economic and Social Survey, 1997 ...*, tables A.5 (national-accounts basis) and A.26 (balance-of-payments basis).

[8] See Organisation for Economic Cooperation and Development, *Global Capital Shortages: Real Threat or Pure Fiction* (Paris, OECD, 1996).

[9] Data in this section are drawn, unless otherwise noted, from *World Economic and Social Survey, 1997 ...*, and conform with the country groupings used in the *Survey*.

[10] See World Bank, *Global Development Finance, 1997*, vol. 1 (Washington, D.C., 1997), p. 6. The World Bank defines low-income countries as having GNP per capita of $765 or less in 1995 and middle-income countries as having GNP per capita of $766 to $9,385.

[11] National authorities of some countries provide similar facilities, such as the Overseas Private Investment Corporation of the United States.

[12] Emergency programmes increased from 2 per cent of ODA in 1990 to 12 per cent in 1995 (see Development Assistance Committee, *Development Cooperation, 1996 Report* (Paris, OECD, 1996), pp. 97-98).

[13] Based on 1995 data (see *World Economic and Social Survey, 1997 ...*, table A.32).

[14] For a discussion of recent developments in international assistance for these countries, see United Nations Conference on Trade and Development, *The Least Developed Countries, 1997 Report* (United Nations publication, forthcoming).

[15] See, in this regard, the agreed conclusions of the High-level Segment of the Substantive Session of 1997 of the Economic and Social Council (E/1997/L.56).

[16] See Report of the Secretary-General on the debt situation of the developing countries as at mid-1997 (A/52/290).

[17] Government bills and notes are examples of such financing in a wide range of countries; commercial paper issues by large corporations are mainly found in the markets of developed countries and, like government securities, may be traded internationally.

[18] See, for example, Maxwell Fry, "In favour of financial liberalization", *The Economic Journal*, No. 107, May 1997, pp. 754-770.

[19] See report of the Secretary-General entitled "Global financial integration: an update" (A/52/406), sect. IV.

[20] See Microcredit Summit Declaration and Plan of Action, Washington, D.C., 2-4 February 1997 (published in *World Bank News*, 6 February 1997, pp. 1-2).

[21] See Development Assistance Committee, *Shaping the 21st century: the contribution of development cooperation* (Paris, OECD, May 1996).

[22] See, for example, Final Communiqué of the Denver Summit of Eight, Denver, 22 June 1997, para. 59.