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Eighteenth Session

ECONOMIC COMMITTEE

SUMMARY RECORD OF THE ONE HUNDRED AND SIXTY-NINTH MEETING

held at the Palais des Nations, Geneva,  
on Monday, 2 August 1954, at 3.00 p.m.

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Present:

Chairman: Sir Douglas COPLAND (Australia)

Members:

Argentina	Mr. CAFIERO
Australia	Mr. JOCKEL
Belgium	Mr. JANNE
China	Mr. CHEN
Cuba	Mr. RIBAS
Czechoslovakia	Mr. NOVAK Mr. KAIGL
Ecuador	Mr. AVILES-MOSQUERA
Egypt	Mr. EL-TANAMLI
France	Mr. ARMENGAUD
India	Mr. BAJPAI
Norway	Mr. THAGAARD
Pakistan	Mr. Saif HASAN
Turkey	Mr. ÖZGUREL
Union of Soviet Socialist Republics	Mr. FILIPPOV
United Kingdom of Great Britain and Northern Ireland	Sir Alec RANDALL
United States of America	Mr. HOTCHKIS Mr. WYNNE
Yugoslavia	Mr. STANOVNIK

Observers from member States of the United Nations:

Indonesia	Miss LAILURUSAD
Mexico	Mr. CALDERON-PUIG Mr. MERIGO
Poland	Mr. BOGUSZ

Representatives of specialized agencies:

International Labour Organisation	Mr. DAWSON
Food and Agriculture Organization	Mr. McDOUGALL
United Nations Educational, Scientific and Cultural Organization	Mr. TERENCE

Representatives of specialized agencies (continued):

International Bank for Reconstruction and  
Development

Mr. LOPEZ-HERRARTE

Representatives of non-governmental organizations:

Category A

World Federation of Trade Unions

Mr. DRINKWATER

Category B and Register

Catholic International Union for  
Social Service

Miss HERTOGHE

Chamber of Commerce of the United  
States )

Inter-American Council for Commerce  
and Production )

Mr. CRUICKSHANK

International Conference of  
Catholic Charities

Mr. BIGOT

International Federation of Friends  
of Young Women )

Mrs. FIECHTER

International Federation of  
University Women )

Women's International League for  
Peace and Freedom

Mrs. BAER

World Federation of Catholic  
Young Women and Girls

Miss HERTOGHE

World Union of Catholic Women's  
Organizations

Miss de LUCY FOSSARIEU

Secretariat:

Mr. Blough

Principal Director, Department of  
Economic Affairs

Mr. Messing-Mierzejewski

Secretary to the Committee

ECONOMIC DEVELOPMENT OF UNDER-DEVELOPED COUNTRIES (item 3 of the Council agenda) (concluded):

- (b) Integrated economic development: reports by the Secretary-General under Council resolution 461 (XV) and
- (c) Methods to increase world productivity (Council resolution 416 E (XIV)) (E/2613, E/2538, E/2604 and Corr.1 (English only), E/AC.6/L.116, E/AC.6/L.117)

The CHAIRMAN drew attention to the note (E/AC.6/L.116) he had prepared on the text concerning sub-items 3(b) and 3 (c) of the Council agenda (integrated economic development and methods to increase world productivity) for inclusion in the Committee's report to the Council, and to the Egyptian draft resolution (E/AC.6/L.117) on the same subjects.

Mr. STANOVNIK (Yugoslavia) pointed out that in any consideration of the problem of raising productivity, mentioned in the second paragraph of the Egyptian draft resolution, it was important to bear in mind not only the industrial but also the agricultural sector. His delegation wished the question of productivity, in all its aspects, to be linked with integrated economic development, and the detailed discussion of both to be deferred until a later session. As to the operative paragraph of the draft resolution, he endorsed the Secretary-General's view that the study in question should be pursued in close co-operation with the regional economic commissions and the interested specialized agencies. His delegation considered that the proper time for the study to be submitted to the Council would be at its nineteenth session, to be held in the spring of 1955.

The CHAIRMAN suggested that he should be authorized to consult the Egyptian representative about the precise form of the resolution to be submitted to the Council instead of putting the Egyptian draft resolution formally to the vote.

It was so agreed.

The CHAIRMAN further proposed that the Committee should place on record the fact that, after taking note of the views expressed on the Egyptian and Yugoslav representatives, it had adopted his note (E/AC.6/L.116) without dissent.

It was so agreed.

(a) Financing of economic development (resumed from the 168th meeting and concluded)

(ii) Report of the International Bank for Reconstruction and Development on the question of creating an international finance corporation (E/2616, E/AC.6/L.115) (concluded)

Mr. Saïd HASAN (Pakistan) said that the joint draft resolution on the financing of economic development (E/AC.6/L.115) submitted by the Australian, Cuban, Indian, Norwegian and his own delegations reflected the largest area of agreement it had been possible to secure in the Working Party, and at least made it possible for the under-developed countries to go on hoping. It had been recognized by the International Bank for Reconstruction and Development and emphasized by the majority of delegations attending the Working Party that contributions to the share capital of the proposed international finance corporation (IFC) would in the first instance have to come from governments; but that institution's subsequent role - and indeed its main purpose - would be to stimulate private investment. It was a moot point whether the needs of under-developed countries would be better met by equity investments or by loans. In his delegation's view, equity capital should, generally speaking, be raised by the country itself, the bulk of the financial assistance provided through the proposed international finance corporation taking the form of loans.

His delegation considered that the minimum initial capital required by such an international finance corporation was more likely to be nearer 100 million dollars than the 50 million dollars mentioned. However, that was a more or less academic consideration at the present stage; much the most important thing was to get the corporation started.

Mr. CAFIERO (Argentina) regarded the report of the International Bank for Reconstruction and Development (E/2616) as a very inadequate response to the request for a detailed analysis made in General Assembly resolution 724 CI (VIII). Moreover, it was stated in the covering letter from the President of the International Bank that the Executive Directors had expressed no opinion on the policy issues discussed in Section II of the report. Hence the Council lacked the necessary information on the basis of which to report to the General Assembly.

He particularly regretted that Section I of the report gave no details of the attitude of those countries "on which IFC would necessarily have to depend for the greater part of its funds".

In addition, the report might rightly have been expected to be more optimistic about the prospects of raising private capital, since the International Bank had itself stated in its last report, discussed at the Council's seventeenth session, that more and more private capital was being offered, which certainly gave the impression that such capital could be raised.

In general, the report seemed to approach the problem of the financing of economic development by means of private capital with extreme caution, although one of the Bank's main functions was to raise such capital.

The Argentine delegation could not support the conclusion reached in Section II, Chapter D, of the report that membership in the Bank should be a prerequisite to membership in the IFC.

The issues involved were too important to brook endless procrastination. A decision should be taken once and for all and, if need be, some eminent person of international repute should be asked to study the question, the more so since that method had given excellent results in the case of the Special United Nations Fund for Economic Development (SUNFED).

Nevertheless, the Argentine delegation would vote for the joint draft resolution in view of the general terms in which it was drafted and of the fact that the question would be coming up again in the General Assembly.

Mr. HOTCHKIS (United States of America) said that the United States Government had consistently shown its practical interest in the economic development of under-developed countries and in the problem of increasing the flow of private investment. It was, however, unconvinced that the establishment of an international finance corporation was either necessary or desirable at the present time. But in view of the many difficulties and complex problems raised by the proposal, his delegation was prepared to co-operate with other members of the Council who believed that the matter ought to be kept under review by the International Bank. His delegation would accordingly vote for the joint draft resolution.

Mr. EL-TANAMLI (Egypt) thought that the International Bank's report constituted an exceedingly brief reply to the precise, detailed questions put to it in the compromise resolution adopted by the General Assembly at its seventh session after protracted discussion. There was therefore an obvious lack of balance between the desire expressed by the General Assembly and the International Bank's technical contribution to the study of the subject, since, as the Argentine representative had already pointed out, the Executive Directors had expressed no opinion on the policy issues discussed in Section II of the report.

The Egyptian delegation could not accept the principle laid down in Section II, Chapter B, of the report that "the voting power of each IFC Director [should be] determined by the extent of the capital contribution made to IFC by the country or countries which he represents". Neither could it accept the procedure set out in Section II, Chapter C, under which further calls for capital would require "the approval of a designated substantial majority of the total voting power". The imposition of those two conditions would in fact place a single country in a position to frustrate any attempt to increase the capital.

Therefore, while able to subscribe to the joint draft resolution as a whole, his delegation hoped that the first paragraph of the operative part would be re-worded to avoid giving the impression that the Council endorsed the suggestions made by the Management of the Bank.

Mr. JANNE (Belgium) stressed the essential role in any process of economic development of equity capital, that was, capital bound up with the fate of the enterprise in which it was invested, increasing when it prospered, dwindling when it was in a bad way and disappearing altogether if it went under.

Unlike debenture stock, which carried a fixed rate of remuneration until redeemed and entailed an obligation to repay - conditions which were often crippling for new ventures - equity capital represented an integrated participation in the enterprise.

At the present stage of the economic development of under-developed countries,

that form of capital participation would require the establishment of special machinery, since the supply of private capital invested spontaneously was very inadequate.

IFC could act as a cog in the transmission between private or public capital and the enterprise. It would provide private capital with financial safeguards and the under-developed countries with an assurance that the investment would not be attended by the political concomitants of economic imperialism or constitute any threat of economic exploitation.

In short, IFC could draft and try out an equitable set of rules for capital placed in the under-developed countries, such rules to be equitable both towards the capital invested and its legitimate rewards, which must be protected against high-handed action by States, and towards the sovereignty of the under-developed countries. In that way, IFC would stimulate an ample flow of private capital to the under-developed countries, thus giving a strong impetus to their economic and social development.

Although the International Bank's report was necessarily largely negative, financial circles in the western world seemed to have been paying increasing attention to the project more recently.

The Belgian Government felt that the financing of economic development should be based on a well-balanced and co-ordinated system of complementary institutions. In that connexion, he would recall the statement he had made during the discussion on SUNFED.

His Government was following the proposal to establish an international finance corporation with active interest. While naturally unable as yet to express an opinion on the substance, it considered that the preliminary study should be rigorously pursued.

His delegation would accordingly vote for the joint draft resolution.

Mr. ARMENGAUD (France) recalled that in his statement on the establishment of SUNFED he had expressed the French delegation's views on the problems of economic financing as a whole. He would accordingly confine himself on the present occasion to endorsing the Belgian representative's remarks.



He then suggested certain drafting amendments to the French text.

Mr. STANOVNIK (Yugoslavia) said that, although his Government was greatly interested in the question, the Yugoslav delegation wished to emphasize that in its view the decline in the amount of international capital available for economic development was due to the present economic and political structure of the world, and that no significant increase in private foreign equity investment could be achieved by the mere establishment of the proposed international finance corporation. At the same time, his delegation believed that the existence of a public guarantee would stimulate the flow of international loan capital.

After a discussion in which Mr. JOCKEL (Australia), Mr. WYNNE (United States of America), Mr. ARMENGAUD (France), Sir Alec RANDALL (United Kingdom) and the CHAIRMAN took part, concerning the wording of operative paragraph 1 of the joint draft resolution,

The CHAIRMAN proposed that the second part of that paragraph be amended to read:

".... and to the Management for having submitted its suggestions on the structure, organization, financing and functions of such a Corporation;"

It was so agreed.

The joint draft resolution on the financing of economic development (E/AC.6/L.115), thus amended, and with the drafting changes to the French text suggested by the French representative, was adopted by 15 votes to none, with 2 abstentions.

Mr. FILIPPOV (Union of Soviet Socialist Republics) explained that his delegation had abstained from the vote because it had not had enough time to study the proposal.

Mr. KAIGL (Czechoslovakia) explained that his delegation too had abstained from the vote for the same reason.

The Chairman announced that, except in the unlikely event of the Council's referring anything further to it, the Committee had completed its work for the session.

Mr. STANOVNIK (Yugoslavia) thanked the Chairman for his able conduct of the Committee's business; in particular, his guidance at the informal discussions, had been especially valuable in making it possible to agree upon proposals capable of commanding a very large measure of support.

Mr. EL-TANAMLI (Egypt) associated himself with the previous speaker's remarks.

The CHAIRMAN thanked all members of the Committee for their welcome and unfailing co-operation.

The meeting rose at 4.45 p.m.