1924th meeting

Friday, 18 October 1974, at 10.10 a.m.

President: Mr. Aarno KARHILO (Finland).

E/SR.1924

AGENDA ITEM 3

Reports of the World Bank Group (E/5583)

1. Mr. McNAMARA (President of the International Bank for Reconstruction and Development, the International Development Association and the International Finance Corporation) said that during the past year new economic problems had arisen, old problems had become more acute and the cumulative impact of complex events had touched every member of the World Bank. Although all countries had been affected in some degree by those events, the poorest of the developing countries had been most adversely affected. Those low-income countries, with a population of one thousand million, were relatively disadvantaged in natural resources, lacked significant foreign exchange reserves and had already been suffering from serious internal deprivations; they now found themselves caught in a web of external economic forces which were largely beyond their control.

2. With regard to the work of the World Bank within the United Nations system, as reported in the 1974 annual reports of the World Bank Group, he said that, in order to avoid duplication of effort and achieve the greatest possible impact from the investment of scarce funds and expertise, the Bank's basic policy was to co-operate closely with all other members of the United Nations family. Some of the relationships had been developed in the regular course of the Bank's operations; they included co-operative programmes with the Food and Agriculture Organization of the United Nations (FAO), the United Nations Educational, Scientific and Cultural Organization (UNESCO), the World Health Organization (WHO) and the United Nations Industrial Development Organization (UNIDO). The Bank had also continued the useful practice of undertaking periodic reviews with other organizations—particularly the International Labour Organisation (the ILO), the United Nations Fund for Population Activities (UNFPA) and the United Nations Children's Fund (UNICEF)—operating in fields in which it was also active. The United Nations Capital Development Fund had recently for the first time joined the Bank in financing a project, and the Bank looked forward to continued co-operation with the United Nations Development Programme (UNDP) on pre-investment activities. Other relationships had developed as a response to special problems. For example, the Bank had been collaborating with FAO and the Special Sahelian Office in meeting rehabilitation needs in the Sudano-Sahelian region and had helped to establish a relief project to assist people in the drought-affected areas in regaining self-sufficiency through development of their farms and herds. International Development Association (IDA) credits aggregating $14 million had been extended to the six countries involved.

3. The Bank had taken the lead in mobilizing the funds required for a 20-year programme sponsored by the Bank, WHO, FAO and UNDP to control river blindness—onchocerciasis—in seven countries of western Africa. Owing to inflation, the estimated expenditures for the first six years had risen from $40 million in 1973 to $54 million. Six Governments had agreed to provide financing totalling $7.5 million for the first year of operations. The Bank was in touch with other possible donors, and he hoped that an understanding would be reached on the balance of the financing for the first phase of the programme before the end of 1974. A Joint Co-ordinating Committee, composed of donor and participating African Governments and international agencies, which would exercise general supervision over the programme, would hold its first meeting in western Africa early in 1975 under the chairmanship of Dr. Candau, former Director-General of WHO.

4. In the past year the Bank had also joined with UNICEF, UNDP, WHO, the United Nations Environment Programme (UNEP) and the International Development Research Centre of Canada to develop a plan for international action to improve water supply and sanitary services in the rural areas of developing countries.

5. In connexion with the designation of 1975 as International Women's Year, the Bank was reviewing its activities, particularly in the field of education, to make a more effective contribution towards improving the situation of women in the developing countries.

6. At the sixth special session of the General Assembly, the Bank had submitted a study of the impact of recent economic changes on the growth prospects of developing countries. The Bank would also continue to play a role in the United Nations Emergency Operation, launched under the terms of General Assembly resolution 3202 (S-VI).

7. Turning to recent economic events, he noted that the significant acceleration in the rate of inflation in the developed countries had begun before the prices of petroleum and other primary commodities had increased and was only partially explained by those increases. Inflation had benefited, and would continue to benefit, virtually all the developing countries by reducing the burden of their debt service in relation to the value of their exports. However, for many of them, particularly the poorest, that benefit would be more than offset by the deterioration in their terms of trade. Moreover, inflation had already eroded, and would continue to erode, the value of the concessionary aid which they received. Most donor countries had not increased the amounts appropriated for official development assistance by an amount sufficient to offset inflation.

8. Since imported oil had accounted for the principal increase in world energy supplies in recent years and could not rapidly be replaced from other sources, the effect of the fourfold price rise in petroleum prices was a global imbalance of payments of unprecedented magnitude which could be expected to persist at least until the end of the decade. The increase in oil prices had

two particularly serious consequences for the less developed countries. First, the cost of their current volume of oil imports had increased by some $10 thousand million, which accounted for 15 per cent of their total import bill and equalled 40 per cent of the entire net flow of external capital to them. As a result they had already had to curtail their development programmes. Secondly, by the end of the decade the members of the Organization of Petroleum Exporting Countries (OPEC) were likely to have a continuing balance-of-payments surplus totalling from $30 thousand million to $60 thousand million—in 1974 prices—of which roughly one fourth would be directly with the other developing countries and the remaining three fourths with developed countries. That imbalance would exert a cumulative strain on the economies of the developed nations and on international financial markets, making it more difficult for developing countries to expand export earnings and finance their balance-of-payments deficits.

9. Although some developing countries had benefited from the boom in other primary commodities which had begun in 1972, only a small number, principally mineral producers, was likely to continue to benefit.

10. Since price projections for primary commodities depended on the assumptions made about growth in the industrialized countries, and since there was likely to be less growth in those countries for the remainder of the decade than in the 1960s and early 1970s, the prices of most primary commodities were not likely to be very buoyant in the years ahead, and a weakening trend could already be discerned.

11. By the end of the decade, the net effect of those price changes would be a decline in the terms of trade of virtually all the developing countries, the poorest among them being likely to suffer a decline of over 20 per cent. Even with expanding export volumes, there would be little increase in the purchasing power of their exports in the face of rapidly increasing import requirements.

12. The industrialized countries had reacted to the price increases and world-wide inflation in ways which had reduced their growth rate. A diminished growth rate in the countries of the Organisation for Economic Co-operation and Development (OECD), which imported 75 per cent of the exports of the developing countries, translated very quickly into a reduced demand for those exports, which in turn reduced the capacity of the developing nations to import and thus led to lower rates of growth.

13. Any one of the events he had just described would have had a serious impact on the developing nations. In combination, the effect on some countries had been near disaster. The trade deficit of the developing countries as a whole would more than double during the current year and, if they were to maintain even minimum economic growth, would continue to rise for the remainder of the decade. Yet official development assistance, as a percentage of gross national product (GNP), would continue to decline in the next few years. Moreover, unless steps were taken to expand the supply of capital available on market terms to the more creditworthy developing countries, they too would have difficulty in obtaining the funds necessary to finance their imports.

14. Even on the probably optimistic assumption that capital flows to the developing nations, with some adjustments for inflation, would increase from the 1973 figure of $20 thousand million to as much as $33 thousand million by 1980, including a proportionate increase in concessionary aid, the growth rates for all the developing nations would be substantially below the levels which had been thought likely only three months earlier. Some countries—for example, Thailand and the Philippines, whose reserves had benefited from buoyant export prices, or Turkey and Yugoslavia, which had received substantial remittances from their workers abroad—could partially absorb the heavy trade account deficits and avoid severe deterioration of their growth rates. The prospects of other countries such as Korea and Brazil, which had been steadily expanding their export of industrial goods, were much better than those of countries dependent primarily on agricultural exports.

15. The rising prices of imported fertilizer, cereals and petroleum, the slack demand for their exports to industrialized countries and the erosion by inflation of the real value of development assistance had had the most severe impact on the growth prospects of the poorest members of the Bank; they could be expected to suffer an actual decline in their *per capita* income—currently averaging less than $200 per year—each year during the remainder of the decade. The effect of that on the already marginal condition of life of the poorest 40 per cent within those nations was an appalling prospect.

16. In his statement to the Council on 15 October 1973 (1881st meeting), he had described the plight of the poorest 40 per cent and had emphasized the critical relationship of social equity to economic growth. The programme that the Bank was carrying out to combat the problems of that segment of the population of the developing countries would put primary emphasis not on the redistribution of wealth and income—justified as that might be in many countries—but rather on increasing the productivity of the poor, thereby providing for a more equitable sharing of the benefits of growth.

17. Since 70 per cent of the population of the developing countries lived in rural areas, the centre of the problem was there. The Bank was determined to pursue the goal of increasing over-all productivity of the 100 million small farms tended by some 700 million individuals by 5 per cent per year by 1985, a rate more than double that of the 1960s. The achievement of that ambitious goal was made even more urgent by the continuing food shortage in the developing world. In the past year, the Bank had assisted in financing rural development projects in 42 countries, involving a total investment of almost $2 thousand million. The projects were expected to generate production increases of more than 5 per cent each year for at least 12 million persons whose average *per capita* income was now less than $75. During the coming five years he expected agricultural loans to double, supporting projects that would cost a total of about $15 thousand million and were intended to benefit directly 100 million rural poor. The economic returns on those investments were expected to exceed 15 per cent.

18. By way of example, he cited projects financed by the Bank in India, Kenya, Mali, Brazil and Mexico. Although the risks of failure were greater in such projects than in the Bank's more traditional investments, for the first time it was possible to see substantial income and employment benefits within the reach of very large

numbers of the rural population, along with very high economic returns to the national economies. Common to all those efforts was an increased emphasis on project design directed towards raising the productivity of the absolute poor. It was clear that past development efforts, both by Governments and by the Bank, had simply not made an adequate contribution to the welfare of that huge and growing group. The unprecedented combination of events affecting the world economy to which he had referred must not distract attention from that fundamental task.

19. Although the world-wide demand for and supply of food grains had been in reasonable balance for several decades past, in recent years there had been a serious and growing shortage of food production in the developing countries. If present trends continued, the cereal import requirements of the developing countries could double between 1970 and the mid-1980s. The additional requirements for foreign currency could not be met from any reasonable projection of export earnings or capital flows. Accordingly, the developing countries must expand their production of cereals. That would be a major topic for consideration at the World Food Conference to be held in Rome in November.The goal could be accomplished only if those countries initiated action on a wide front, including measures to expand cultivated areas under production, to expand fertilizer capacity and to increase agricultural research activities, all of which would require substantial capital. The activities supported by the Consultative Group on International Agricultural Research, formed by FAO, UNDP and the World Bank in 1971, would complement those efforts. Grants totalling $33 million had been made by the Group in 1974 to finance 10 research programmes.

20. The Bank estimated that only one half of the expected demand for fertilizer in the developing countries by 1980 could be produced with their existing capacity or planned expansion; thus, a 100 per cent increase in fertilizer production in those countries was necessary, requiring an investment of some $6 thousand million to $10 thousand million—an amount which did not appear to be forthcoming.

21. Although many developing nations had already initiated action to expand their production of food grains, years would pass before those efforts would yield results. In the meantime, the higher import costs of petroleum, food grains, fertilizer and manufactured goods would place a very heavy burden on their balance of payments and reduce their savings available to finance investment. Unless those requirements were met by additional external capital flows, further declines in their rates of growth would result.

22. Assuming a modest 2 per cent growth per year in *per capita* income in the poorest developing countries and a somewhat higher rate in other developing countries, the Bank estimated that total capital requirements would increase from $20 thousand million in 1974 to $53 thousand million in 1980, necessitating a proportionate increase in concessionary aid. The concessionary element, although a huge sum, would still represent only one third of a percentage point of the donors' GNP, which was no more than the current figure. Two thirds of the increase in the capital required was needed simply to compensate for the higher prices of commodities and services imported by the developing countries.

23. Two points should be emphasized when considering whether such capital flows could be attained. First, the middle-income and higher-income developing countries must substantially increase their borrowings in capital markets. That was impossible unless the recycling mechanisms made special provision for meeting their capital requirements, which they did not do at present. Secondly, he wished to stress again the alarming rate at which inflation was causing official development assistance to fall in relation to GNP. The ratio had decreased by two thirds in the past 10 years and was now scarcely 40 per cent of the rate established by the General Assembly in 1970 in the International Development Strategy for the Second United Nations Development Decade (resolution 2626 (XXV)), since when there had been no increase in real terms in concessionary aid flows despite a 12 per cent increase, in real terms, in the GNP of the donor nations.

24. Accordingly, the most important single step the developed nations could take to assist the one thousand million people of the poorest countries would be to recognize that the effects of inflation alone required, and would continue to require, major increases in the appropriated money values of official development assistance.

25. Although the OPEC countries were beginning to help to meet the capital requirements, many of their initiatives would take time to organize and disbursements were therefore likely to be slow. The World Bank had offered its assistance to accelerate the flow of funds.

26. Inasmuch as the current plans of the OECD and OPEC countries did not indicate that sufficient capital would be available for the developing nations, he believed that the World Bank Group must expand its lending to the maximum permitted by prudent financial management and the availability of funds. The programme which he had presented to the Board of Directors for its consideration was a first step.

27. It provided for total lending during the current fiscal year and in the succeeding four years of $36 thousand million. The programme approved by the Board for the fiscal year ending June 1975 contemplated commitments totalling $5.5 thousand million, as compared to $4.5 thousand million in the year just ended and $3.5 thousand million in the year before that. The total actually provided for an increase in real terms of only 40 per cent.

28. The proposed Bank Group programme would require net borrowing during the five years of over $13 thousand million. Much of that amount could, he believed, be borrowed from OPEC countries, which had been most co-operative, the Bank having received from them in recent months commitments totalling some $2 thousand million. But large as the Bank's programme was, in combination with the other funds which the OECD and OPEC countries indicated they planned to make available to the developing nations, it was totally inadequate, in his opinion, to meet minimum development objectives. The Bank had therefore strongly recommended that the newly established Joint Ministerial Committee of the Boards of Governors of the World Bank and IMF on the Transfer of Real Resources to Developing Countries—the so-called "Development Committee"—should appraise the needs of the developing countries for additional capital and examine possible sources of funds to meet those needs.

29. To sum up, he believed that the additional assistance on concessionary terms needed, and needed promptly, by the poorest of the Bank's member countries—$3 thousand million to $4 thousand million of additional assistance per year in the remaining years of the decade—could and must be mobilized. The OPEC countries had gained considerable wealth, and the traditionally wealthy countries continued to be wealthy, although less so currently than they had once hoped to be. They were immeasurably more wealthy than the nations of the developing world.

30. There were no more fundamental measures of wealth than levels of nutrition, literacy and health, and in those terms the average citizen of a developed nation enjoyed wealth beyond the wildest dreams of the inhabitants of the poorest developing countries. The developed nations must not yield to the temptation to set aside considerations of additional aid to those countries until their own problems were resolved. Such aid was not a luxury; it was a continuing social and moral responsibility, and the need for it was greater than ever.

31. The affluent nations could absorb the inconvenience of a small further reduction in their already immensely high standard of living in order to continue to expand aid. However, for the poorest countries such a downward adjustment did not mean inconvenience; it meant appalling deprivation, and for millions of individuals it meant death.

32. Mr. ROUGÉ (France) said that the Council should keep itself informed of the activities of the specialized agencies and ensure that their activities were properly integrated with those of the United Nations system as a whole. The Council should also form as precise an opinion as possible, of the world economic and social situation by tapping the experience of all the components of the system. Furthermore, the Council should work out general guidelines for the system as a whole and help each constituent organization to make as effective a contribution as possible.

33. In the light of those responsibilities, he wished to ask the President of the World Bank a number of questions. At the eighteenth session of the Governing Council of UNDP (5-24 June 1974) and, more recently, at the second session of the *Ad Hoc* Committee on the Special Programme, which had dealt with the United Nations Emergency Operation, his delegation had seen for itself the good working relationship between the World Bank and the rest of the United Nations system. The establishment of the new World Bank/IMF Development Committee would create further liaison and co-ordination problems. He wished to know how the Bank hoped both to safeguard its own authority and to ensure the necessary liaison with the other competent bodies of the United Nations system, taking duly into account the general co-ordinating role of the Economic and Social Council and the Secretary-General of the United Nations.

34. He also wondered why the President of the World Bank had not submitted at the fifty-seventh session the report he had just given to the Council.

35. He had three questions concerning the activities and role of the Bank in the future. First, he wished to know the status of the replenishment of the resources of IDA. His delegation agreed that the assistance to be provided under the Special Programme should be channelled through bilateral sources and existing multilateral institutions, including IDA. That implied that the countries in the best position to provide the necessary resources would ensure that the funds were forthcoming. Secondly, he wished to know what the prospects were for the adoption and implementation of the five-year programme of the Bank to which the President had referred. Lastly, he wished to know how the Bank would deal with the need for increased capital to meet its expanded loan programme. The approach to be taken by the Bank should be consistent with the spirit of the sixth special session of the General Assembly and should reflect the redistribution of political power and financial capacity, while at the same time the Bank's structure should remain intact.

36. Mr. KANAZAWA (Japan) said his delegation was happy to note that the aid activities of the World Bank had increased substantially during the past year, despite the deterioration of the world economy. It was expected that the Development Committee would have the immediate task of analysing the flow of financial resources to the most seriously affected and the least developed countries, as well as dealing with the recycling of "oil dollars". His delegation hoped that, in addition, the Development Committee would help to find solutions to medium-term and long-term problems concerning the transfer of real resources to the developing countries. It should bear in mind the need for co-operation and co-ordination with the United Nations and the Development Assistance Committee of OECD in order to avoid possible duplication of work.

37. Japan was participating in the Emergency Operation launched under the auspices of the United Nations and was now extending assistance to the value of at least $100 million, in addition to the existing level of aid, to the developing countries most seriously affected by the economic situation during the past year.

38. In addition to emergency relief, development assistance should be extended to the most seriously affected developing countries in larger amounts and on more concessionary terms. Along with bilateral assistance, multilateral assistance was indispensable for the successful implementation of aid programmes for those countries. His delegation therefore welcomed the World Bank's policy of giving preference to the most seriously affected developing countries through IDA loans, for which, of course, the terms were very concessionary. His Government would continue, to the best of its ability, to co-operate with the World Bank programmes of assistance, including assistance to the most seriously affected countries. He recalled that his Government had decided to contribute $495 million for the Fourth Replenishment of IDA and was considering providing $165 million of that amount, in co-operation with other major contributing countries, before the Fourth Replenishment entered into force.

39. His delegation was pleased to note that the machinery established within IMF in June 1974 had been facilitating the recycling of "oil dollars" primarily to the developing countries. His delegation welcomed the growing amount of funds borrowed by the World Bank during the past year from oil-exporting countries and hoped that such arrangements would continue smoothly. It was to be hoped that a favourable international climate for the recycling of "oil dollars" would develop and that the process would gain momentum. His delegation was relying on IMF and the World Bank to make further efforts to that end.

40. Mr. ERICSON (Sweden) said that drastic economic changes in the world had seriously affected the

balance-of-payments situation of many poor countries, threatening their development programme. The exceptional stress and strain on the world economy as a whole had strengthened the demands of the developing countries for changes in the relations between rich and poor States, demands which had been reflected in the Declaration on the Establishment of a New International Economic Order adopted at the sixth special session of the General Assembly (resolution 3201 (S-VI)).

41. The Programme of Action adopted at the special session should be the over-all framework for the work of the newly established Development Committee of the World Bank and IMF. One of its main concerns should be to provide for effective participation of the recipient countries in the decision-making process of the World Bank and IDA. The distribution of votes should better reflect the fact that the principals of a development institution were primarily those countries where the institution was contributing to development and not those countries where the funds were acquired. His delegation hoped that the Development Committee would do its utmost to promote the principles of the Programme of Action regarding increased influence of the recipient countries in the World Bank. Co-ordination between the Development Committee and the United Nations system was equally important. The United Nations rule of one vote for each Member State reflected the democratic principle of equality among sovereign States. It was therefore essential that the Development Committee, with its limited membership, should follow the principles laid down in basic United Nations resolutions such as the International Development Strategy and the Programme of Action. Attempts to steer multilateral development matters into the orbit of organs mainly influenced by the rich countries would seem to be contrary to the Declaration on the Establishment of a New International Economic Order.

42. His delegation fully supported the shift in the allocation of IDA resources towards the most seriously affected countries and the priority to be given to increasing agricultural production in general and improving the productivity of the rural poor in particular. It was now widely accepted that economic growth without social justice did not meet the ultimate objective of development. Although that point had been progressively reflected in the operational activities of IDA, further steps should be taken. According to the tentative five-year lending plan, the World Bank would concentrate increasingly on the poorest segments of the populations of the poorest developing countries. That implied that the limited resources available would be put at the disposal of Governments which were striving to attain internal economic and social justice. The President of the World Bank had stated that the Bank was prepared to work closely with Governments that made strong commitments to the promotion of new income and employment opportunities for the poorest groups. However, deeds spoke louder than words, and the World Bank must not put itself in a position which could be interpreted as counteracting structural and social reform in developing countries.

43. Many developing countries, especially the poorest, had heavy debt burdens. Debt relief must be part of any over-all development effort, and co-operation with the donor countries would be the natural framework for such activities. His delegation hoped that the Bank would continue to make a constructive contribution by co-ordinating efforts not only to avoid acute crises but also to increase the net capital transfer, especially to support the developing countries most seriously affected by the economic crisis.

44. His Government had repeatedly stressed the need for all rich countries and the international organizations to give generous and constructive aid to the peoples of Indo-China. The United Nations agencies and the World Bank Group, as well as other international organizations, would have an important role to play in the reconstruction of the region. However, assistance from multilaterally contributed funds should not be extended to only one of the parties in a country where military conflicts were raging and where international agreement had recognized the existence of two authorities. That point was important for both the general stature of the World Bank and the willingness of its members to support it.

45. His Government would make available the first instalment under the Fourth Replenishment of IDA, despite the fact that the agreement reached at Nairobi at the joint annual meeting of the World Bank and IMF in September 1973 had not yet entered into force, because it considered it important that IDA should be kept going. However, it assumed that the Bank would not act in a manner which would make it increasingly difficult to gain the support of public opinion in Sweden for further contributions to IDA.

46. Mr. KAUFMANN (Netherlands) said that the heavy emphasis placed by the President of the World Bank on the needs of the poorest people in developing countries coincided with his Government's views, as reflected in its development assistance programme. Over-emphasis on long-term development planning in past years had led to a certain neglect of more urgent and immediate needs. He wished to state that Netherlands official development assistance would be increased to 0.8 per cent of its GNP.

47. The fact that the Council would be considering the reports of the World Bank Group and of IMF separately, with an interval of about a month, was regrettable, since recent developments in both organizations showed their increasingly close interrelation. The establishment of the Development Committee was the most recent example. Moreover, the close connexion between events in the monetary sphere and development aid emerged clearly from the annual report of the World Bank. His delegation hoped that, in future, the Council would be able to deal with the annual reports of both institutions together. At the resumed fifty-fifth session, there had been a widespread feeling that the Council should have more frequent opportunities to meet the heads of both institutions when discussing development problems. His delegation hoped that the Secretariat would study how the Council dealt with the activities of the Bank and IMF and would make concrete suggestions on the matter at the organizational session in January 1975.

48. The Minister of Finance of the Netherlands had set forth the position of his Government on recent developments in the Bank and IMF at the joint annual meeting of the Bank and IMF in Washington in September 1974. While supporting the establishment of the Development Committee, he had recognized the danger that it might duplicate the work of other institutions, especially within the framework of the United Nations and the United Nations Conference on Trade

and Development (UNCTAD). His delegation would be grateful for any comments on that point by the President of the World Bank.

49. Recent events had clearly shown the increased need for close co-operation between the United Nations, the World Bank and IMF. The interrelationship between the United Nations, UNCTAD, the World Bank and IMF were not merely procedural or institutional. The United Nations system was faced with the increasingly significant question of socio-economic interdependence, as was borne out by the results of the sixth special session of the General Assembly. The Declaration and the Programme of Action on the Establishment of a New International Economic Order would remain meaningless unless all parts of the organized world community made every effort to contribute to their implementation. As shown in its *Annual Report 1974,* the World Bank had developed in many new areas and established new and important relationships with other parts of the United Nations system. His delegation whole-heartedly supported that trend. The World Bank's input into international discussions on development problems was increasingly recognized as indispensable to the United Nations system. His delegation welcomed the close working relationships that had developed over the past few years between the United Nations Secretariat and the Bank staff. The fruits of that co-operation had been referred to by the Secretary-General in his opening statement at the fifty-seventh session (1900th meeting), and by his Special Representative for the Emergency Operation for the most seriously affected countries (1917th meeting), an operation for which the Bank had provided statistics.

50. The seventh special session of the General Assembly on international economic problems would oblige Member States to take a close look at the institutional arrangements set up almost 30 years previously. It was to be hoped that the World Bank, as well as other United Nations organizations, would make a useful contribution to the discussions at the next special session on the substantive and institutional matters to be considered. His delegation hoped that the Council would be able to hold more frequent discussions with the President of the World Bank and his associates. Suggestions had recently been made in the Second Committee of the General Assembly proposing continuous sessions of the Economic and Social Council; that might provide a vehicle for more substantive discussions with the heads and the staff of the World Bank and IMF. The Council must organize its work so as to make fuller use of the knowledge and expertise in the United Nations family, including the Bank.

51. Mr. HOVEYDA (Iran) observed that the President of the World Bank had become the spokesman of what he had called the "marginal men". All that he had foreseen had come true, and yet he did not have too pessimistic a view.

52. In the current world economic situation, the most disturbing element was the fact that the old economic theories and recipes which had been successful in the past had proved useless. That was because a change had taken place. Until recently, the developed countries had lived in the world as colonizers lived in their colonies. They had established a kind of private club, and now the doors of that club had been opened and other countries were joining them. It was clear that the time when a group of countries could impose their decisions upon the rest of the world had passed. The developing countries could no longer accept the widening of the gap between themselves and the developed countries. They would no longer foot the bill for inflation in the developed countries.

53. He wished to thank the President of the World Bank for emphasizing the fact that the inflation had begun before the rise in the prices of oil and other raw materials. His reply to those who blamed the oil-producing countries for all the world's current ills could be found in the report of the World Bank. As its President had explained, previously the rich countries had become richer while the poor countries became poorer; in the past year they had remained rich but had not grown richer, while some of the oil-producing countries had increased their wealth. In other words, the wealth of the world had not disappeared but had been redistributed. He wished to point out that the rise in the price of oil had contributed only 0.45 per cent to the inflation in the United States and 1.5 per cent to that in Western Europe. The richer countries should make an effort to avoid wasting the world's resources, particularly energy and food. It was essential for Governments to understand the changes that were taking place; otherwise, a confrontation might develop. All States should co-operate in the establishment of a new international economic order based on equality, justice and legality, in accordance with the Declaration and the Programme of Action adopted at the sixth special session of the General Assembly.

54. Iran was well aware of its responsibilities and had allocated its balance-of-payments surplus to the developing countries and to some developed countries. Its commitments for 1974-1975 amounted to $6 thousand million, or 8 per cent of its GNP. Iran had assisted the Secretary-General's Special Representative in implementing the Special Programme outlined in section X of the Programme of Action (General Assembly resolution 3202 (S-VI)), but had already pointed out that the Programme did nothing to solve the long-term problem. In the long run it was not a developing country's balance-of-payments deficit that mattered, but its development. His delegation had proposed a new special fund to which the oil-producing and developed countries would pay some $4 thousand million per year, and in the management of which the recipient countries would participate on an equal footing. He had been glad to hear the representative of Sweden stress that the developing countries should participate in the decision-making process, as was essential if the international community was to meet the immediate and future needs of the most seriously affected and other developing countries. It was regrettable that some industrialized countries had opposed that proposal.

55. In conclusion, he wished to assure the World Bank of his delegation's continued support. The President of the Bank had stated that aid was a moral and social responsibility. He would go further and say that it was a natural obligation and a necessity. The root of the current economic crisis was not the balance-of-payments deficit but the gap between the rich and poor, which, if allowed to widen any further, would mean the end of all economic order and perhaps of the world. The international community must therefore work to narrow the gap until it disappeared.

56. Mr. MACKENZIE (United Kingdom) said that the picture presented in the World Bank Report and

emphasized in the President's statement was a sombre one. The vast majority of nations faced immediate and major economic difficulties, but the poorest would be most affected, since they were most vulnerable to the recent increases in the prices of oil, fertilizers and food grains. The President of the Bank had referred to the temptation to defer assistance until national problems were solved, but his Government was fully aware of the need for all countries to avoid such a policy in the current situation. That was why it had been eager to take a constructive part in the dialogue on the process of adjustment both in the United Nations and at the recent joint annual meeting of the World Bank and IMF in Washington. Since an immediate practical response to the needs of the most vulnerable countries was essential, the United Kingdom, along with the other members of the European Economic Community (EEC), had offered to play a substantial part in the Special Programme initiated by the sixth special session of the General Assembly. It had also increased its bilateral aid flows to some of the most seriously affected countries.

57. His delegation welcomed the emphasis laid on the poorest countries in the future lending programme of the World Bank Group, and was encouraged by the wide spread of the sources of funds made available to those institutions. It hoped that the advance contributions promised by the United Kingdom and other countries would allow IDA to continue its vital work until the Fourth Replenishment came into effect. The United Kingdom had undertaken to make available one full year's contribution to IDA pending ratification of the agreement on the Fourth Replenishment.

58. Like the representative of the Netherlands, he wished to thank the World Bank and its staff for the assistance given to the Special Representative of the Secretary-General in preparing the analyses required for the United Nations Emergency Operation. Even after the 12-month operation to launch the Special Programme was completed, the poorest developing countries would need assistance over a long period. The new direction of Bank and IDA lending towards the poorest nations would be of major importance, and those institutions were undoubtedly well equipped to adapt themselves to the changing pattern of need. His delegation woud like to hear any preliminary views which the President of the Bank might have formed about how the programmes of the new United Nations Special Fund, established under the terms of General Assembly resolution 3202 (S-VI), would relate to World Bank facilities. The Bank Group's institutions might well be major executing agencies under the terms of the draft articles of the Special Fund which the Council had submitted to the General Assembly. His delegation welcomed the fact that the new Fund, like the Bank, would concentrate its resources particularly on the hardest-hit countries.

59. His Government had considerable doubts concerning recent proposals for the establishment of new funds for specific sectoral action. He would be grateful for the views of the President of the Bank on the problems of reorientating the work of existing efficient major institutions, since they might throw some light on the difficulties encountered by new funds, with no experience of work in the relevant field, when trying to deal with a specific area of difficulty.

60. His Government considered it vital that all competent institutions should work together with a minimum of overlap, particularly in assessing aid flows to the countries most seriously affected by the current economic problems. His delegation would be interested to hear the comments of the President of the Bank on a major problem recently emphasized by the Special Representative, namely, the difficulty of obtaining the fullest information about flows from all sources to individual recipients. The Bank's experience and access to information had already been of great value to the Special Representative in assessing needs, and its experience in organizing meetings of the various country consortia would undoubtedly be of value in considering how to overcome that difficulty.

61. Mr. MAKEYEV (Union of Soviet Socialist Republics) said that his delegation had found much with which it could agree and disagree in the statement by the President of the World Bank. It was, however, clear from the Bank's *Annual Report 1974*, that despite the changes in its programmes of action and priorities, the Bank's activities remained substantially the same and were still directed towards protecting the interests of the financial centres of the Western world. To that end, the Bank did not hesitate to interfere in the internal affairs of States and to put pressure on them, as numerous speakers at the current session of the General Assembly had pointed out.

62. In its analysis of the current economic disorder, the Bank had tried to overlook the main reasons for the ominous condition of the so-called market economy. As the representative of Iran had pointed out, the Bank blamed the current situation above all on the increases in the prices of oil and other commodities, despite the fact that inflation and other problems had existed long before. The Bank had failed to draw attention to the major contribution made to inflation by the spending of ever greater sums on armaments under pressure from the profit-seeking military-industrial complex. The growth of inflation could not be restrained if there was no end to the arms race, a point which had been recognized by world political, business and social leaders and to which the Bank should pay due heed.

63. The Bank had also failed to mention the role in creating inflation played by national and transnational corporations, which used every pretext to raise the prices of their products, thereby affecting also the prices of raw materials and semi-manufactures. It was no secret that leading statesmen in certain capitalist countries had rebuked the monopolistic corporations for their actions, asking them to exercise greater restraint.

64. Given its approach, it was not surprising that the Bank had not put forward a single constructive alternative to the inflationary policy which had led to the current crisis. Indeed, by propagating the principles of the market economy system in the developing countries, the Bank had in fact contributed to the spread and growth of inflation. The Bank had given a one-sided view of the issue of oil prices, which of course had for long been artificially depressed through the actions of the transnational corporations. He recalled that the substantial profits reaped by those companies from the rise in oil prices were now under investigation in such countries as the United States and Japan. The report also created the impression that the Bank was ready to devote almost all its efforts to the question of recycling capital acquired through the export of oil, an intention which took no account of the true

scope of world and national economic and social problems.

65. The Bank had noted the problems of poverty and backwardness in the developing countries, but had not made any specific proposals for their solution. It continued to pay little attention to promoting the industrialization of the developing countries, but contributed through its actions to the withdrawal of monopoly capital, a process leading to the outflow of profits and to the brain drain from the developing countries. The Bank plainly considered that the main way to overcome the present crisis was to reduce the living standards of the peoples of the world, an approach which clearly suited those circles that were accustomed to solving economic problems at the expense of the working masses. In that connexion, he reiterated that many of the problems of the developing countries to which the Bank referred in its report could be solved if even a part of the vast sums spent on armaments was used for development assistance. The adverse economic effect of arms expenditure had been clearly illustrated by the Minister for Foreign Affairs of the USSR in his statement at the current session of the General Assembly (2240th plenary meeting), and the Soviet delegation therefore wished to draw the attention of the Council once again to the many United Nations resolutions concerning development aid. Their practical implementation would be in the interest of all countries, particularly the developing countries.

66. Mr. GONZALEZ DE COSSIO (Mexico) thanked the President of the World Bank for his statement, and particularly for his reference to the Bank's participation in Mexico's development effort. He pointed out that much of the Bank's aid to the International Maize and Wheat Improvement Centre in Mexico was re-exported to other developing countries in the form of high-yield and drought-resistant plants and seeds.

67. Given the current background of food, raw materials and energy problems, the deterioration in the terms of trade of the developing countries and the possibility of recession in the developed countries, the critical state of international financial co-operation for development and the difficulty of transferring real resources to the developing countries, the recent establishment of the IMF Interim Ministerial Committee and the joint decision of the World Bank and IMF to establish a Development Committee had been essential. During the first 15 years of the Bretton Woods system, increasing volumes of public and private capital had been transferred to the developing countries. Since 1961, however, the increase in the resources transferred, in monetary terms, had been less than the increase in the GNP of the developed countries; even if no account was taken of the effects of inflation, official assistance, in absolute terms, had been practically stagnant over the last decade. Indeed, since 1968 the bulk of the financial resources channelled to the developing countries had come from private sources, causing those countries greater external indebtedness and an increased drain on their already limited foreign exchange reserves. The developing countries were now suffering acutely from the world-wide inflation and the adverse consequences of the restrictive policies being applied by the industrial countries to combat domestic price increases. There had been a concomitant hardening of world capital markets, because some developed countries which had formerly been capital exporters were now themselves in need of support and were able to compete for the available resources on better terms than the international financial institutions and the developing nations. It was now clear that the oil-exporting countries would run up vast current account surpluses during the current year, while the industrial countries and the non-oil-exporting developing countries would incur heavy deficits. That serious imbalance would call for a massive rechannelling of funds to cover the deficits, for it was unlikely that the international community or individual countries would wish to achieve equilibrium by means of a major depresson.

68. If the developing countries were to increase their exports and their GNP, they first required regular inflows of capital with which to remedy their present lack of production capacity. In that respect, it was essential to adhere to the guidelines for reform of the international monetary system laid down by the Board of Governors of IMF in 1971, which included the establishment of an efficient and equitable process for balance-of-payments adjustments, the promotion of economic development, and the institutionalization of the transfer of real resources from developed to developing countries.

69. Mr. CHANG Hsien-wu (China) pointed out that General Assembly resolution 2758 (XXVI) provided in explicit terms for the restoration of all the lawful rights of the People's Republic of China in the United Nations and for the immediate expulsion of the representatives of Chiang Kai-shek from the United Nations and all related organizations. In the three years which had elapsed, the overwhelming majority of the members of the United Nations system had complied with that resolution, but the World Bank Group, demonstrating a truculent and unreasonable attitude which his delegation strongly condemned, was still keeping the representatives of Chiang Kai-shek in its organizations.

70. The Government of the People's Republic of China was the sole lawful Government of China. The Chiang Kai-shek clique, a handful of national scum repudiated long ago by the Chinese people, was not in any way entitled to represent China. That the World Bank Group should stubbornly cling to its policy of creating "two Chinas" and of hostility towards the Chinese people could not be tolerated. His delegation once again requested that the World Bank Group should truly carry out General Assembly resolution 2758 (XXVI) by immediately expelling the representatives of Chiang Kai-shek from its organizations and by severing all its ties with the Chiang Kai-shek clique.

71. Mr. FASLA (Algeria) said he believed that the World Bank could and should play an important role in supplementing the efforts of the United Nations system to establish a more just and equitable economic balance between developed and developing countries. In that connexion, he emphasized the importance of the Declaration and the Programme of Action on the Establishment of a New International Economic Order adopted at the sixth special session of the General Assembly and asked what the Bank intended to do to implement those decisions, particularly with regard to industrialization and the transfer of real resources to the developing countries.

72. He welcomed the establishment of the Development Committee, but regretted that its composition reflected the economic system which had prevailed to date. Rather than produce studies and undertake research, the Committee should seek ways of imple-

menting the Declaration and the Programme of Action. For it to do otherwise could only be seen as an attempt to perpetuate indefinitely the traditional attitude of the rich countries to development problems. His delegation shared the view that the United Nations and its institutions should participate in the Development Committee and considered that the Economic and Social Council could do much to co-ordinate their efforts in that respect and avoid duplication.

73. While his delegation had reservations concerning some of the comments made at the current meeting concerning the relationship between oil prices and inflation, it was willing to increase its co-operation with the World Bank and supported the efforts of its President in behalf of the developing countries.

The meeting rose at 12.55 p.m.

1925th meeting

Friday, 18 October 1974, at 3.15 p.m.

President: Mr. Aarno KARHILO (Finland).

E/SR.1925

AGENDA ITEM 3

Reports of the World Bank Group (*concluded*) (E/5583)

1. Mr. DIETZE (German Democratic Republic) said that his delegation had outlined its position on some of the substantive matters dealt with in the reports of the World Bank Group during the general debate and would explain its position on other issues when the reports were considered by the Second Committee of the General Assembly. He drew the attention of the Council to the fact that the German Democratic Republic and the Federal Republic of Germany were two independent, sovereign States and should be so designated in World Bank Group and International Monetary Fund (IMF) reports.

2. Mr. LASCARRO (Colombia) said that, in his statement to the Council at the preceding meeting, the President of the World Bank had given a dramatic description of the situation in developing countries, the widening gap between industrialized countries and poor countries, and the urgent need to end the waste of economic resources which was the root cause of inflation and of the current world economic crisis.

3. He endorsed the views expressed by the representatives of Iran and Algeria at the preceding meeting concerning the item under consideration.

4. His delegation attached great importance to the Programme of Action on the Establishment of a New International Economic Order adopted by the General Assembly at its sixth special session, in its resolution 3202 (S-VI), and to emergency and long-term measures in favour of developing countries. He wished to ask the President of the World Bank how the Bank proposed to implement the measures envisaged in the Programme of Action with a view to providing solutions to the alarming decline in official development assistance as a percentage of gross national product and to the apocalyptic situation he had so dramatically described.

5. Mr. QADRUD-DIN (Pakistan) said that, as a low-income country, Pakistan was seriously affected by the current world economic crisis. As it had received substantial economic assistance through the World Bank in recent years, the future policies and activities of the Bank were of great interest to his country. The President of the Bank had referred to the recent improvement in commodity prices which had benefited some developing countries, but had forecast a decline in the terms of trade of most of those countries in the future that would erode any quantitative improvement in exports achieved through increased production. He had further stated that the reduction of the growth rate of developed countries as a result of their current external payments difficulties would create great problems for developing countries, since there was a one-to-one relationship between that and a reduction in their own growth rate. The answer to the payments problems of the developed countries did not lie in a recycling of surpluses into short-term securities and bank deposits in those countries. Such measures could provide only short-term palliatives. Urgent, enlightened concrete measures were required to tackle the serious problems facing the international community, and in particular the developing countries. Development assistance was not a luxury affordable only when times were easy; on the contrary, it was a social and moral responsibility and indeed an economic necessity.

6. The process of recycling surplus oil revenues could help in solving the dual problems of inflation and recession in the developed countries, if it led to the creation of expanding markets for their exports. Low-income developing countries had potentially large markets for the capital goods produced in developed countries. That potential could be exploited through enlightened trade policies allowing free access to the markets of developed countries for the products of developing countries. A link must be established between the need to recycle surplus funds and expand markets for the products of both developed and developing countries on the one hand, and development assistance, on the other.

7. In the view of his delegation, the Declaration and the Programme of Action adopted by the General Assembly at its sixth special session provided a framework for such a process. The Special Fund established under the terms of Assembly resolution 3202 (S-VI), for emergency relief and development assistance was of vital importance in that connexion.

8. His delegation hoped that the work of the joint Development Committee established by the Bank and IMF would complement the efforts of the Council to solve the current economic and social problems of the international community.