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EXTERNAL FINANCING OF ECONOMIC DEVELOPMENT OF THE DEVELOPING COUNTRIES

Note by the Secretary-General

1. At its twenty-second session, the General Assembly, in resolution 2274 (XXII), reaffirmed the need to increase progressively the flow of external resources to the developing countries, both through multilateral and bilateral assistance programmes and through private capital transfers, and to ease the terms and conditions on which such resources are provided. The Assembly expressed appreciation that some developed countries had already taken steps to increase the flow of resources to developing countries and to provide such resources on easier terms and conditions. The Assembly also noted with concern the decreased flow of resources from other developed countries and the lack of improvement in the terms and conditions of transfer.

2. The Assembly, in paragraph 4 of resolution 2274 (XXII), requested the developed countries to study the possibility of implementing the measures suggested in the report by the Secretariat entitled "Factors affecting the ability of developed countries to provide resources to the developing countries" (E/4375) with a view to overcoming the obstacles which affect their ability to increase the transfer of resources to the developing countries.

3. In the same resolution, the Assembly requested the Secretary-General to submit to the General Assembly at its twenty-third session, through the Economic and Social Council at its forty-fifth session, a report on the implementation of Council resolution 1183 (XLI) and on the action taken in accordance with paragraph 4 of resolution 2274 (XXII).

4. At its twenty-second session, the General Assembly also expressed concern over the increasing rate of outflow of capital from the developing countries, which substantially reduces the net volume of external resources available to those countries. In resolution 2276 (XXII), the Assembly urged the developed countries "to ease the terms and conditions on which external resources are made available to developing countries... so as to minimize the debt-servicing burden on the balance of payments of the developing countries"; and "to consider extending, whenever it is agreed that the need arises, easy terms and conditions to developing countries whose balance-of-payments problems and debt-servicing burden require the rescheduling or consolidation of debts". In the same resolution, the Assembly requested the Secretary-General "to include, in the regular report on the international flow of long-term capital and official donations, statistics - when these can be obtained - of reverse flows, assessing their significance in relation to total financial transfers and giving an analysis of factors affecting their flows both in the countries where they originate and in the countries to which the funds are sent".

5. Pursuant to these resolutions, three reports were submitted to the forty-fifth session of the Economic and Social Council.

(a) The latest issue of the regular report on the international flow of long-term capital and official donations. This was expanded to deal with some of the questions referred to in Council resolution 1183 (XLI) and was published under the more general title The External Financing of Economic Development.[1/] It contained discussions of the problem of reverse flows (chapter III), the resource transfer targets and progress in their implementation (chapter IV) and factors affecting the ability of the more developed countries to transfer resources to the less developed countries (chapter V).

(b) "International flow of capital and assistance - Review of recent trends" (E/4495). This was intended to bring the regular report up to date and deal systematically with the most recent developments in each of the areas referred to in Council resolution 1183 (XLI) and General Assembly resolution 2274 (XXII).

(c) A report entitled "The recent flow of resources into and out of the developing countries" (E/4512), prepared in response to General Assembly

1/ United Nations publication, Sales No.: 68.II.D.10.

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resolution 2276 (XXII), which deals with the problem of reverse flows and updating the data contained in the regular report.

6. In General Assembly resolution 2276 (XXII) the Secretary-General was also requested to take into account, in his annual report on the international flow of long-term capital and official donations, the unanimously adopted recommendations of the group of experts on the methodological problems related to the measurement of the flow of resources to developing countries,[2] and to consult other international organizations concerned with statistics on the different forms of transfer of resources, with a view to arriving at a uniform system of statistics for these transfers. The resolution further requested the Secretary-General to provide, in co-operation with the organizations concerned in the United Nations family, such assistance as developing countries may need to improve the recording of the inflow and outflow of resources.

7. In this connexion, close contact has been maintained at the staff level between the United Nations, on the one hand, and the International Monetary Fund and the Organisation for Economic Co-operation and Development (OECD) on the other. These two bodies - both directly concerned with the problems of measuring the transfer of resources - were represented at the sessions of the group of experts on methodological problems, whose report is referred to in resolution 2276 (XXII) and have continued to provide the United Nations with the statistical information at their disposal. Attention is drawn to table 19 of The External Financing of Economic Development, which presents a reconciliation between the data reported by the United Nations and the data reported by the Development Assistance Committee of the Organisation for Economic Co-operation and Development. Table 8 of the same report and table 2 of "The recent flow of resources into and out of the developing countries" (E/4512) are both based on information furnished directly by the International Monetary Fund.

8. Further to the recommendations of the expert group, it should be pointed out that the one that was not unanimously put forward has since been adopted by the Second United Nations Conference on Trade and Development at New Delhi. The Conference agreed that "each economically advanced country should endeavour to provide annually to developing countries financial resource transfers of a minimum

2/ United Nations publication, Sales No.: 67.V.D.17.

net amount of 1 per cent of its gross national product (GNP) at market prices in terms of actual disbursements, having regard to the special position of those countries which are net importers of capital".3/

9. In order to facilitate the discussion of various problems by the Council, a summary of the main points in the documentation was submitted under the symbol E/4539.

10. At its twenty-second session, the General Assembly, in resolution 2275 (XXII), noted with concern the continued delay in the replenishment of the resources of the International Development Association and reaffirmed the appeals made in Economic and Social Council resolution 1272 (XLIII) and in Trade and Development Board resolution 37 (V) to Governments and members of the International Development Association to treat the question of further increasing the resources of the Association as a matter of high priority.

11. In March 1968, the Executive Director of the International Development Association recommended and transmitted to member Governments for approval a proposal for the replenishment of the Association's resources in the amount of $1,200 million. (As of 29 February 1968, the uncommitted funds of the International Development Association had dwindled to $52 million.) Eighteen member countries, together with Switzerland, which is not a member of the Association, proposed making available to IDA for lending in developing countries $400 million annually for three years. The first payment by the contributing countries is scheduled for November 1968. According to this proposal, the eighteen member countries would make contributions to the International Development Association equivalent to $1,170.5 million.

12. Also before the Council at its forty-fifth session was the report of the Secretary-General on Foreign Investment in Developing Countries4/ and a note by the Secretary-General (E/4565) concerning a proposal to convene a panel on foreign investment made in the report.5/ The report was prepared in response to

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3/ See page 36 of TD/L.37, annex I.

4/ United Nations publication, Sales No.: E.68.II.D.2 (E/4446).

5/ *Ibid.*, para. 246.

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General Assembly resolution 2087 (XX) and recommendation A.IV.12 of the first session of the United Nations Conference on Trade and Development.

13. The report observed that it was generally felt that, if the enormous gap between the development finance requirements of the developing countries and the financial resources available to them were to be substantially reduced, considerable additional private capital would have to be forthcoming. The continuing discussion, both within and outside the United Nations, of the role of foreign private investment, the resolutions adopted by the General Assembly and the Economic and Social Council, the recommendations of the United Nations Conference on Trade and Development and other international bodies, and the laws and practices of developing countries all showed that few of the developing countries were unwilling, as a matter of principle, to accept private investment in some form. Similarly, the interest of foreign investors as a group in expanded investment opportunities in developing countries was demonstrated by the continuous flow of substantial foreign private funds to those countries, irrespective of their economic system, and was confirmed by the statements and actions of Governments of capital-supplying countries and of official representatives of the international investment community.

14. The report pointed out that the host Government and the foreign investor had the same immediate goal, the establishment of a new venture, and the same long-range interest in the economic development and rising standard of living of the country. The differences between them, while unavoidable, were not irreconcilable, but they could be resolved only on the basis of a determination and recognition of what were the reasonable and legitimate expectations and requirements of both sides. It was therefore necessary to find what might be called "bases of reconciliation", that is, positions intermediate between their maximum demands and desiderata, on which Governments and investors could nevertheless fruitfully agree and co-operate, as regards the general conditions of foreign private investment as well as the terms of individual projects. What was needed then was to initiate a dialogue between Governments and investors so that both parties could be in a position to define their attitudes towards the role and conditions of foreign investment in developing countries, in full knowledge and understanding each of the other. In order to initiate such a dialogue, the

report proposed the convocation of a representative panel of officials from Governments and international agencies and of leaders in the investment community to discuss the principal issues arising in the context of foreign investment in developing countries and the solutions that might be appropriate to them. The note by the Secretary-General concerning the proposal to convoke a panel on foreign investment (E/4565) recalled that in the Council, the observer for the Netherlands had made a statement on the subject and informed the Council that his country was willing to act as host to the first meeting of the panel and to bear the costs of the meeting. The note pointed out that the need to convoke such a panel had been clearly acknowledged in one of the preambular paragraphs of UNCTAD resolution 33 (II).

15. The Council subsequently adopted resolution 1359 (XLV) on the promotion of private investment in developing countries, in which it approved the proposal for the convocation of the panel and accepted the generous offer by the Government of the Netherlands to act as host to the panel and to bear the cost of the meeting.

16. Details of the debate on these matters are set forth in chapter V of the report of the Council to the General Assembly.[6/]

6/ Official Records of the General Assembly, Twenty-third Session, Supplement No. 3 (A/7203).