



ECONOMIC AND SOCIAL COUNCIL

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PALAIS DES NATIONS, GENEVA

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President: Mr. Daniel COSÍO VILLEGAS (Mexico)

Present:

Representatives of the following States: Afghanistan, Bulgaria, Chile, China, Costa Rica, Finland, France, Mexico, Netherlands, New Zealand, Pakistan, Poland, Spain, Sudan, Union of Soviet Socialist Republics, United Kingdom of Great Britain and Northern Ireland, United States of America.

Observers for the following Member States: Argentina, Australia, Austria, Brazil, Czechoslovakia, Ghana, Greece, Hungary, Japan, United Arab Republic.

Observers for the following non-member States: Holy See, Switzerland.

Representatives of the following specialized agencies: International Labour Organisation, Food and Agriculture Organization of the United Nations, United Nations Educational, Scientific and Cultural Organization, International Bank for Reconstruction and Development, International Monetary Fund, World Health Organization.

The representative of the International Atomic Energy Agency.

AGENDA ITEM 6

**Report of the Governing Council
of the Special Fund (E/3270)**

1. Mr. KAUFMANN (Acting Chairman of the Governing Council of the Special Fund) paid a tribute to the memory of Mr. José Serrano of Chile, the late Chairman of the Governing Council, who had made a great contribution to the establishment of the Special Fund and to its early work.

2. Submitting the report of the Governing Council of the Special Fund (E/3270), he said that at the first two sessions the Governing Council had adopted rules of procedure and provisional financial regulations. It had discussed and generally approved the broad outlines of Special Fund policy presented by the Managing Director. The major emphasis would be placed on projects which would demonstrate the wealth-producing potential of unsurveyed natural resources in the less developed countries, on training and research institutes, and on surveys of limited cost which would lead to early investment. In view of the modest resources available, a line had to be drawn between what the governments should

be expected to finance themselves and the types of project which the Fund should support (see E/3270, paras. 12-16).

3. Contributions pledged for 1959 fell far short of the \$100 million total anticipated by the General Assembly for the Expanded Programme of Technical Assistance and the Special Fund; only \$26 million would in fact be available for the Fund.

4. At its second session, in May 1959, the Governing Council had examined thirteen projects recommended to it by the Managing Director (E/3270, para. 23 and annex IV). They covered widely separated countries and included a great variety of projects to be executed by the United Nations or the specialized agencies. The main function of the executing agency in each case would be to ensure that international funds were used for the purpose for which they had been allocated. The actual carrying out of the project would in most cases be the responsibility of the government concerned wherever adequate machinery existed. The Governing Council had expressed the hope that the executing agencies concerned would make every effort to keep their part of the expenditure below the level of the estimates submitted by them.

5. Mr. HOFFMAN (Managing Director of the Special Fund) said that the progress made by the Special Fund during the first months of its existence had been largely due to the whole-hearted co-operation and the administrative support received from the United Nations and the specialized agencies.

6. It had been felt that at the outset an attempt should be made to obtain a clearer picture of the whole vast problem of the development of the less developed countries. Of the eighty-two States Members of the United Nations, perhaps sixty, with a total population of 1,000 million, could be classed as less developed. Their national income in 1957 amounted to some \$120,000 million, or an average of \$120 per caput yearly, as against about \$800 in the more advanced countries. The present rate of increase in the national incomes of the less developed countries was estimated at about 3 per cent annually; population growth, however, averaged about 2 per cent a year, so that the net annual increase in national income in those countries was about 1 per cent — which was too slow a rate.

7. The present rate of investment in the under-developed countries was inadequate. In 1957, those countries had used for capital formation \$6,000 million out of their national incomes and a total of \$3,000 million from outside sources, public and private. That rate of investment meant a total of \$90,000 million over ten years. An effort should be made over the next decade to double

the increase in the annual national income, and to attain a net annual average gain of at least 2 per cent. In order to achieve that modest goal, the less developed countries themselves should raise their investment figure from \$60,000 million to \$75,000 million between 1960 and 1970, and the advanced countries should increase their investment in the less developed countries from \$30,000 million to \$60,000 million. That total investment figure of \$135,000 million represented not only what the under-developed areas needed, but in all probability all the investment capital they could effectively use. Their power of absorption was limited, and one of the main objectives of the Special Fund was to increase it.

8. New international investment was, of course, only one factor in economic development. Any successful foreign investment programme must be considered as auxiliary to the self-help programmes which were being planned and, in most instances, successfully implemented, by the less developed countries themselves. The primary reason for under-development in any country was in most cases the under-utilization of physical and human resources. Before better use could be made of those resources, their extent must be determined. There was a great need for more knowledge of the physical resources of the less developed countries. The human resources had been shamefully neglected. Only a small percentage of the inhabitants of the under-developed countries had had the opportunity to acquire an education, and few of them had positions of responsibility. There was an immense need for training of all kinds.

9. The Special Fund had a unique role to play: it had in a sense to carry one step farther the work of the Expanded Programme of Technical Assistance which had achieved remarkable results in the past ten years. The Fund's resources enabled it to concentrate on relatively large projects aimed at stimulating investments and producing early results. It would judge its success by the number of new investments or other developments which might result from the schemes it had financed.

10. The first thirteen projects approved by the Governing Council did not represent a typical pattern. The time factor involved in the evaluation of requests and the need to consult with the governments and the executing agencies had meant that only sound projects actually ready for presentation by the end of March 1959 were submitted to the Governing Council at its second session. As the Special Fund's operations gathered momentum, it would be possible to arrive at a more balanced programme in respect of types of projects and of geographical distribution.

11. The United Nations Secretariat, the International Bank for Reconstruction and Development (Bank) and the specialized agencies concerned had co-operated with the staff of the Special Fund both in evaluating the projects and in planning their execution in consultation with governments. It had been arranged that the resident representatives of the Technical Assistance Board (TAB) in the countries served by the Special Fund would normally be the channel of communication between the governments concerned and the Fund.

12. During its first four months of operation, the Special

Fund had received some seventy-five requests for assistance amounting to over \$81 million, and it was clear that the sums required to meet perfectly sound requests would far exceed the resources available. The Fund had been obliged to operate with barely half the amount considered appropriate at its inception. He hoped that all States Members of the United Nations would reconsider the question of contributions so that the original figure of \$100 million could be reached.

13. The expenditure of a comparatively small amount on the projects financed by the Special Fund would lay the foundations for the investment of much larger sums in revenue-producing development programmes aimed at improving the living conditions of millions of people.

14. The modest aim of seeking to raise the annual rate of increase in national income in the under-developed areas during the next decade to 2 per cent would be attained only if the necessary preparatory work was done.

15. Mr. LUNS (Netherlands) said that after the many years of effort to establish a United Nations fund for financing the economic development of the less developed countries, the appearance of the first report of the Special Fund was a memorable occasion. The figures quoted by the Managing Director made it clear that even a modest average increase of 2 per cent in the annual per caput income of the less developed countries required a concerted effort by both the developed and the less developed countries to supply additional financial resources.

16. It was gratifying to note the growing support for the view that the Special Fund should be regarded as only a modest beginning for more ambitious efforts. It was to be hoped that the structure of the proposed international development association would be in line with the bold approach indicated by the Managing Director of the Special Fund. He was glad to note that the first series of thirteen projects approved by the Governing Council covered widely separated countries and various types of activities. His government viewed with approval the inclusion of a number of projects for the training of technical personnel, and hoped that future programmes would include projects of a social character which could have a direct economic impact. It was also gratifying to see that full use was being made of the facilities of TAB, the United Nations and the specialized agencies.

17. The costs charged by the specialized agencies for carrying out projects must be kept as low as possible.

18. The report clearly showed that the Special Fund was moving beyond the Expanded Programme of Technical Assistance. Even within its present terms of reference there was wide scope for expansion of the Fund's activities, provided greater contributions were made. The Netherlands Government, with a pledged contribution of \$2,700,000 for 1959, had been the second largest contributor. He hoped that there would be a considerable increase in 1960 both in the number of contributing States and in the amounts contributed, so as to spread the financial burden more evenly and, above all, to expand the activities of the Special Fund.

19. Mr. TERÁN (Mexico) said that since the Special Fund was created, Mexico had helped to define its character and guide its development. In view of the limited resources, operations should be confined to important projects which had a claim to absolute priority. His delegation associated itself with the view that the Special Fund must not become a mere extension or duplication of the Expanded Programme. Its resources must be increased if it was to operate effectively in the coming year and start building up a reserve fund.

20. The principle that all countries should contribute to the Special Fund was commendable, but it should be applied with due regard to the economic possibilities of each; the less developed beneficiary countries should be under no obligation to refund the sums allotted. He was glad to note the substantial contributions made by some very highly developed countries which appreciated the Fund's task. It was regrettable that others had so far withheld their active support from the Fund when they were quite capable of contributing. He had been interested to hear the statement by the representative of the United Kingdom (1071st meeting) that his country intended to increase its contribution considerably. It was however, disturbing to note that a great many contributions which had been pledged would not in practice be available for use, being in national currencies which were either not convertible or difficult to use. He felt that that state of affairs was incongruous, since the purpose of the Special Fund was to raise the level of living in under-developed countries, with the help of the more advanced countries; moreover, the Fund acted only after thoroughly studying requests and ensuring that its plans related to productive activities.

21. Referring to paragraph 12 of the report (E/3270), he thought there should be no rigid standards for defining the nature and scope of projects: assistance might vary according to the degree of development in each country.

22. A special Council committee should be established to deal with all matters relating to the Special Fund, so as to make its work more specific and permanent. The Mexican delegation firmly supported the idea of a steady growth of the Fund and was convinced that its resources would progressively increase to enable it the better to achieve its objects.

23. Mr. AZIZ (Afghanistan) said that one aspect of the policy of the Special Fund was causing his delegation and many others some anxiety. During the discussions which had led to the establishment of the Fund, it had been said that its function would be to fill the gaps in the economies of the under-developed countries and to make good the lack of general and detailed studies on natural resources and available manpower. In his explanatory paper, the Managing Director had given assurances to that effect. At the second session of the Governing Council, however, it had appeared from the projects accepted and rejected that the principle adopted was to finance only projects that would lead directly and immediately to investments, mainly private investments, or which would increase the productivity of the country concerned in a given sector within a short time.

24. His delegation considered that the division of projects into pre-investment surveys and projects leading only indirectly to investment was a rather artificial one. For instance, in what category would the Fund place a project for the study of hydraulic and agricultural resources whose object was to determine the area and nature of available land and its classification for subdivision into pasture, forest and agricultural land? If it was a project leading only indirectly to investment, which of the United Nations agencies would finance it? Such projects were clearly outside the field of work of those agencies. But they were of vital importance for planning economic development in countries whose administrative services lacked experience.

25. Moreover, it had been found that not much could be expected from private investment unless public investment, whether coming direct from the government or in the form of foreign assistance, itself reached a certain minimum level. That meant that if, for economic reasons, the Special Fund interpreted its objectives in a restrictive sense when examining projects, public investment would not increase, and would not reach the necessary level in the under-developed countries to attract private investment.

26. He was aware of the difficulties which the Special Fund was having in procuring the necessary resources and believed that only financial stringency had dictated its policy. He appealed to all the rich countries which had already been through the difficult phases of development not to allow it to fail. Afghanistan would do everything in its power to help to provide the Special Fund with the necessary resources.

27. Mr. SHANAHAN (New Zealand) said that while the total amount of contributions had been far below the amount expected, the figure of \$26 million pledged for the first year was almost as much as the Expanded Programme of Technical Assistance had taken a decade to attain. The Special Fund could not, of course, be satisfied indefinitely with the current level of contributions. The criteria laid down for the selection of projects (E/3270, paras. 12-14) were sound, and if they were adhered to, the confidence of governments would be fully justified, and increased resources would be forthcoming.

28. With regard to the execution of projects, the flexible approach adopted was the most appropriate one. Where the recipient government had the machinery to undertake the execution of a project, it was appropriate that it should be given the opportunity to do so. The Managing Director of the Special Fund should, however, be able to call upon the specialized agencies for assistance if necessary.

29. The extent to which the cost of the assistance of the specialized agencies was to be borne by the Special Fund should be left to the Managing Director to work out with the agencies concerned on the basis of General Assembly resolution 1240 (XIII). Cost allocation would, of course, have to be negotiated at first on an *ad hoc* basis. He hoped, however, that fairly soon a pattern would begin to emerge and that it would ultimately be possible to standardize the arrangements. In any event, it was implicit in resolution 1240 (XIII) that as

much as possible of the Fund's resources should be devoted to actual operations in the field. The specialized agencies should therefore make every effort to keep overhead costs down to a minimum.

30. The welcome co-operation between the Special Fund and the Expanded Programme of Technical Assistance would help to reduce overhead costs and prevent overlapping. It was to be hoped that in the case, for instance, of the Lower Mekong river basin project, where technical assistance had revealed a need for help on a larger scale, the Special Fund would be able to carry various sections of the project a stage further. The Special Fund was quite distinct from the Expanded Programme; however, while a careful line of demarcation must be drawn between their activities in order to avoid duplication, it would be regrettable if the experience and knowledge of the one were denied to the other. His delegation felt that as far as possible the resources of the Special Fund should be directed to basic projects which would facilitate United Nations technical assistance activities.

31. In a world where there was capital available for investment in worth-while projects, the Special Fund had a most important function to perform in helping beneficiary countries to bring those projects to a stage where capital would be attracted both from within the country itself and from abroad. In due course, as the activities of the Fund expanded, the stage might be reached where the number of projects brought to the capital-using stage would require funds exceeding the amount of capital available. The general question of increasing the supply of foreign capital available to the less developed countries was in the minds of many governments. The Council's debate on the world economic situation had revealed the importance and the pressing character of the problem and the extent to which it had been aggravated by the decline in the prices of primary commodities. His delegation hoped that sufficient capital might yet be forthcoming to enable the essential development of the less developed countries to proceed rapidly.

32. Mr. AUBOIN (France) agreed that the current rate of growth of the national income in the under-developed countries was seriously inadequate; the doubling of that rate was a minimum goal. The difficulties arising from the limited capacity of economically backward countries to absorb capital had been experienced by France in the under-developed regions for which it was responsible. The Managing Director of the Special Fund rightly believed that one of the principal functions of the Fund was to increase the capacity to absorb capital. Since under-development was in the majority of cases the result of under-utilization of resources, an inventory of resources was clearly one of the first responsibilities of the Fund; and since the use of known resources was hampered, delayed or prevented by the lack of technicians and qualified workers, the rate of economic growth naturally depended on technical education and training in countries in the process of development. There was thus a close link between technical assistance and the Fund.

33. The Fund's present programme was of limited scope

owing to shortage of time, and the Governing Council had not been in possession of the complete background data essential for a proper assessment of the true value of projects. His delegation hoped that the secretariat of the Special Fund would provide the delegations of Member States with more complete information regarding the projects they had examined when the second programme came to be prepared. The Governing Council did not seem to have played a very active role in getting the programme under way and should exercise in full the functions conferred upon it by the General Assembly in resolution 1240 (XIII).

34. With regard to the execution of projects included in the 1959 programme, the report devoted several paragraphs to additional expenditure incurred by executing agencies. The Managing Director and the Governing Council did not seem to have been able to give a critical appraisal of expenditure involved in projects. The French delegation considered that aspect of the question particularly important, since it raised the problem of co-operation between the Special Fund and United Nations organs.

35. One of the major problems would be to meet numerous requests with limited resources. He hoped that contributions would be pledged on a more generous scale the following year, but they would inevitably fall short of requirements. It was therefore of even greater importance than hitherto to establish the correct basic principles defining the Fund's field of action. It should finance projects enabling countries to strengthen the basis of their economies or to speed up the recruitment of personnel capable of taking over the training of local specialists. Priority must be given to all projects concerned listing resources and establishing training centres. The French delegation believed that a new debate should be held in the Governing Council on the correct policy for the Special Fund; the Economic and Social Council might then in turn consider the question in the light of experience and with a more thorough knowledge of the Fund's resources.

36. Mr. PHILLIPS (United States of America) said he would confine his remarks to the finances of the Special Fund. All looked forward to the time when the Special Fund and the Expanded Programme of Technical Assistance reached the target of \$100 million. For the current year his government had pledged \$38 million for the two programmes, subject to the limitation that its contribution would not exceed 40 per cent of the total amount of all contributions. If other contributions had reached the level necessary to utilize the full contribution offered by the United States, \$95 million would have been available. He realized that every government had its own difficulties and had to take them into account in making its decisions, but the problem was one that would have to be confronted in the years to come. He hoped that a better record would be established in 1960.

37. The willingness of governments to provide substantial support for the Special Fund might well determine to what extent future multilateral assistance to the less developed countries would in fact be practicable.

38. Dr. DOROLLE (World Health Organization) said that economic and social progress must inevitably

promote progress in matters of health and, conversely, economic and social development was impossible without an improvement in health conditions. As an example, he cited the obvious link between bilharziasis and malaria control and river development schemes. It was also essential to take account of population and health statistics in planning economic and social development. To give only one example, plans to develop the Volta valley by expanding irrigation schemes had to include measures to prevent any simultaneous increase in onchocerciasis, known locally as "Volta blindness".

39. The secretariat of the Special Fund was well aware of health requirements in the field of development, but it was perhaps useful to bring the point to its attention once again. The World Health Organization was always ready to help governments in drawing up requests for assistance for health projects, and hoped they would not hesitate to consult it whenever projects for which they were requesting assistance from the Fund involved health questions. In too many cases economic development, particularly river development schemes, had caused a deterioration in the health situation by changing the local conditions.

40. Mr. MICHALOWSKI (Poland) said that Poland gave its full support to the Special Fund and was anxious to participate fully in its activities. The Fund represented a new, though modest, form of concrete assistance by the United Nations to countries in need. His delegation looked forward to its future with confidence. Like the Expanded Programme of Technical Assistance, it would ultimately gain the sympathy of governments and win the active support of all those who fought for economic and social progress in the world. His delegation was also convinced that, as time passed, the Fund would change qualitatively. It regarded the Fund as the nucleus of a vast and efficient economic aid programme for the under-developed countries.

41. There was a considerable gap between the clearly stated needs—\$81 million—and the Fund's uncertain resources. An urgent appeal should be addressed to countries which had hitherto not announced or specified the amount of their contributions. However, that was not the only thing necessary to bridge the gap. In any multilateral action, the best way to mobilize resources was to observe fully the principles of universality and overcome narrow political prejudices. Furthermore, maximum flexibility should be attained so far as the form of contributions was concerned. The application of those principles by the Fund would increase its prestige among the member countries, make for greater confidence in the Fund and eventually have a positive influence on the size of contributions.

42. The summary of projects in annex IV of the report (E/3270) showed that they were all of importance to the development of the national economies of the countries concerned and in conformity with the basic ideas governing the Fund's programme. He would draw special attention to the close co-operation which had developed between the Special Fund, the specialized agencies and individual governments. In particular, the ILO, FAO, UNESCO and the Bank had been of invaluable assistance to governments in working out

economically and financially sound projects, while facilitating the Fund's task of selecting the first projects to be financed. The Polish delegation hoped that that co-operation would develop further during the execution stage of the projects, when the role of the specialized agencies would become even more important.

43. The administrative and operational costs of the Fund's projects should absorb as little as possible of its modest resources, and his government was therefore concerned over the size of those costs. The estimates for the first projects showed that in some cases the costs would exceed 12 per cent of the total cost of the project. Both the percentage and the actual figures seemed rather high, and his government hoped that the specialized agencies would again prove that they could reduce costs and still work efficiently.

44. In conclusion, he expressed his delegation's appreciation of the efforts of the Special Fund's administration, headed by Mr. Hoffman. The energy with which it had undertaken its work and the results achieved in less than six months constituted a guarantee that the resources of the Fund would be used effectively.

45. Mr. FARUQI (Pakistan) associated himself with the observations of the representative of Afghanistan. The under-developed countries did not intend their comments as criticism; but, like sick people, they knew best where the pain was worst. It was not enough to confine the scope of the Special Fund to surveys and studies; one of its major objects was to encourage investment. Accordingly, he strongly urged that consideration be given to including a few pilot projects in future programmes, and he recalled that pilot projects had been in the mind of the General Assembly when it established the Fund.

46. It was unfortunate that full advantage had not been taken of the generous offer of the United States Government. His government would have to plead guilty together with others for not meeting expectations in the matter of contributions.

47. In conclusion, he said that the many doubts he had felt concerning the Special Fund had been dispelled, and he had great hopes for what it would be able to do for the under-developed countries.

48. Mr. CHERNISHEV (Union of Soviet Socialist Republics) said that while he recognized that an equitable distribution of the Special Fund's resources was a very complex problem, it seemed to him that the countries of South-East Asia and Africa were not sufficiently represented in the programme approved by the Governing Council (E/3270, para. 23 and annex IV). He emphasized the special needs of the new States in those regions, and expressed the hope that the situation would be corrected in future programmes.

49. He too felt that the administrative costs were too high, both in absolute and in percentage figures. Reduction of those costs would release a greater share of the meagre resources of the Fund for its substantive work.

50. Mr. HASSAN (Sudan) thought it most regrettable that the Special Fund's resources were so inadequate at

the initial stage of its existence. Governments should re-examine the question of contributions and be more generous. He also suggested that the United States Government might perhaps modify its 40 per cent limitation so that a greater proportion of the potential United States contribution could be utilized. If the great powers could agree to reduce armaments, vast

resources could be made available to the Fund. If the United Nations continued and strengthened its support of the efforts of the under-developed countries to help themselves, the two "camps" would soon be reunited into one world of peace and prosperity.

The meeting rose at 5.25 p.m.