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ACCELERATION OF THE TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES

Increased transfer of resources

Report of the Secretary-General

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I. INTRODUCTION

1. The General Assembly, at its thirty-third session, requested the Secretary-General, by paragraph 10 of resolution 33/136, to "undertake consultations with a view to appraising the concept of a substantially increased transfer of resources, including potential mechanisms for such transfers, and to report thereon to the General Assembly at its thirty-fourth session, taking fully into account the results of negotiations on the subject in the ... Committee of the Whole Established under General Assembly Resolution 32/174". The present submission contains a study of various proposals for a substantially increased transfer of resources. The Secretary-General has initiated consultations on these proposals with interested Governments and institutions and will report on these consultations to the General Assembly at its thirty-fourth session in an addendum to the present document.

2. The recognition of growing interdependence between the economies of the developed and developing countries provided a point of departure for a series of suggestions in recent years regarding substantial increases in the transfer of long-term resources to developing countries. The proponents of the large, indeed even massive, transfer of resources include Governments, of both developed and developing countries, international institutions and private individuals. As may be expected, the suggestions and proposals vary considerably in the breadth of their objectives, their scope and their operational features. While some aim essentially at furthering international consideration of the question of resource transfers, others are at a stage appropriate for intergovernmental deliberations.

3. The subject of massive resource transfers was dealt with at the fifth session of the United Nations Conference on Trade and Development on the basis of a number of ideas put forward by the Group of 77 in the Arusha Declaration. 1/ The discussions at the Conference reflected a broad consensus regarding the inadequacy, from the point of view of minimum development requirements of developing countries, of the present level of resource transfers. In Conference resolution 129 (V), entitled "The transfer of real resources to developing countries", the Conference noted that substantial increases in transfer of resources "are an indispensable factor for accelerating their /developing countries'/ pace of development and could help stimulate global economic activity, particularly in medium- to long-term perspective". Resolution 129 (V) also enunciated a number of broad principles for increased resource flows, which should:

"(a) Be compatible with the development priorities of developing countries and should take due account of their debt-servicing capacity over the longer term;

"(b) Give special attention to all developing countries which depend primarily on concessional funds for external financing for their development, particularly the least developed among developing countries;

1/ Arusha Programme for Collective Self-Reliance and Framework for Negotiations (TD/236).

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"(c) Be largely raised in international financial markets for project development and execution and programme finance purposes."

4. In its consideration of this question, the Conference focused particular attention on the proposal submitted by Mexico regarding the establishment of a long-term facility to finance purchase of capital goods by developing countries. Since the proposal of Mexico has been formally submitted for intergovernmental consideration, the Conference recommended that the proposal be considered as quickly as possible with a view to taking a decision at the earliest possible date. 2/

5. The present background report has been prepared by the secretariat of the United Nations Conference on Trade and Development in accordance with the request contained in General Assembly resolution 33/136. Chapter II examines the present framework for the transfer of resources to developing countries and assesses the context which has given rise to the proposals for an expanded flow of funds to developing countries. Chapter III analyses the principal themes underlying the proposals and, in that connexion, raises certain questions of both a technical and policy nature. It also analyses the detailed features of a number of proposals which are sufficiently elaborate to warrant detailed examination. Chapter IV appraises some of the concepts underlying the proposals and raises issues requiring further consideration at the intergovernmental level.

2/ For the proposal by Mexico, see annex II below.

II. CONCEPTUAL FRAMEWORK FOR TRANSFER OF RESOURCES TO DEVELOPING COUNTRIES

A. Present framework for international financial co-operation

6. It is now generally acknowledged that among the factors restricting the pace of development of developing countries is the need to supplement domestic savings with external sources of finance. In this connexion, two issues arise:

(a) The level of external finance necessary to underpin a specific growth target for developing countries, given an improved performance of domestic savings;

(b) The need to provide financing, on appropriate terms and conditions, to offset balance-of-payments deficits encountered by developing countries, in particular those arising from conditions in the world economy at large or otherwise beyond the control of developing countries.

7. International consensus relating to the need for resource transfers to developing countries has helped evolve the basis for an international assistance policy. In establishing the minimum objective of 6 per cent for the annual average rate of growth in the gross domestic product (GDP) of the developing countries during the 1970s, the International Development Strategy for the Second United Nations Development Decade envisaged that the annual net capital inflow to developing countries would amount to 1 per cent of the gross national product (GNP) of the economically advanced countries; moreover, in order to secure a proper balance between concessional and non-concessional flows, official development assistance was envisaged to reach 0.7 per cent of each donor's GNP by the middle of the 1970s.

8. This distribution between concessional and non-concessional flows was deemed necessary not only in order to keep the debt-servicing burden within reasonable limits, but also to ensure that developing countries with low per capita incomes, which depend most heavily on official development assistance funds, were able to secure adequate funds to make it possible to achieve the target envisaged by the Strategy of doubling their incomes within a period of less than two decades.

9. With regard to the second consideration, namely, the need for balance-of-payments financing, it was assumed that conditions of steady growth and of full or near-full employment in developed countries would ensure a steady expansion in developing countries' exports. Departures from the Strategy's norm of growth in export earnings of about 7 per cent per annum were thought to be temporary and self-reversing so that the payments facilities available at the International Monetary Fund (IMF) and, in particular, the Compensatory Financing Facility, would ensure that the process of steady growth would continue without interruption.

10. The assumptions underlying the Strategy have not, however, been validated by the experience of the 1970s. In the early years of the decade, the world economy underwent a series of disruptions in the form of large fluctuations in both production and prices, which have subsequently given way to a period characterized

by levels of unemployment and rates of inflation much higher than those foreseen when the Strategy was adopted. In consequence of prolonged and severe recession in developed market-economy countries, developing countries were hit by shortfalls in their export growth, losses in their terms of trade and reduction in the availability of both official development assistance and official payments support, and they failed to achieve the rates of growth envisaged in the Strategy.

11. Taking into account the effects of the new recession which started in 1979, it is now clear that the annual growth of the GDP of developing countries as a group will not exceed 5.7 per cent per year as an average for the whole decade, which is approximately the level achieved during the 1960s. The most seriously affected as well as the least developed countries, which account for about 60 per cent of the total population of developing countries and which are likely to be especially severely affected by shortfalls in official development assistance, grew at about only half the rate envisaged in the Strategy. When account is taken of the growth in their population, the per capita output of these countries has tended at best to register minimal increases and in some cases had declined.

12. During the decade, the economies of developed market-economy countries have experienced levels of unemployment and inflation which tended to be high by post-war standards, stagnation or falls in manufacturing output and reductions in the rate of growth of real disposable income. After averaging about 5 per cent per annum during the period 1960-1973, the rate of growth of gross domestic product of the developed market-economy countries fell to 0.3 per cent in 1973-1974, to minus 0.6 per cent in 1975 and to 4.5 per cent in 1976-1977.

13. These developments have thrown into sharp relief the malfunctioning of the international economy from the standpoint of the development process; at the same time, the developments suggest that the international economy is functioning in an inefficient manner for the developed countries as well. The continuing stagnation in the rate of capital formation, the persistence of payments disequilibria and of high rates of inflation suggest that the underlying disequilibria are of a character likely to persist for some time.

B. Recent approaches to the question of long-term capital flows to developing countries

14. In view of the deep crisis the world economy is going through at the present time, it is not altogether surprising that attention has focused on the vast potential of developing country economies as a new frontier of growth in the world economy. 3/ The proliferation of suggestions and ideas in the area of financing to tap the existing potential in developing countries is somewhat paradoxical: in view of the recent experience characterized by continuing stagnation in the supply of concessional funds, inadequate payments support and the absence of official

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3/ See, for example, the Right Honourable Roy Jenkins, "Europe's present challenge and future opportunity", first Jean Monnet Lecture, Florence, Italy, 27 October 1977.

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intervention to stem the rapid deterioration in the external financing position of developing countries, the implementation of such ideas and suggestions would require a higher degree of political commitment in developed countries than has so far been the case.

15. While the principal ideas underlying various approaches on expanded transfers are discussed at greater length in chapter III, it should be noted that a recurring theme underlying various proposals is that such transfers would be beneficial to both developed and developing countries. Although such an emphasis represents an important widening of the discussions on transfer of resources, it was not altogether absent in the earlier considerations for providing financial flows to developing countries. The multiple and frequently disparate objectives assigned to the provision of assistance, such as the promotion of donors' strategic, political and cultural interests, frequently detracted from the very real benefits developed countries and, in particular, their export sectors obtained from the provision of external assistance. To be sure, policy-makers in donor countries have always recognized such benefits; 4/ this perception, however, has yet to be shared by legislators and by the public in many of these countries. Although a large component of the transfers is commercially motivated and tying of assistance essentially constitutes domestic transfers, resource transfers continue to be viewed as "burdens" on domestic budgets and, therefore, a "sacrifice" borne by the tax-payers.

16. Although the impact of the economic performance of developed countries on the economies of developing countries through transmission of various influences affecting the developed countries demand for developing countries exports, the behaviour of world commodity markets and the determination of terms of trade, and the international capital flows of various types has been well documented, adequate recognition was not given until recently to the process of transmission of the influences of developing countries' economic performance on the level of economic activity and growth in developed countries.

17. The influence of developing countries' performance on the fortunes of developed countries has been vividly underscored in the context of the present recession. It is now generally acknowledged that a major mitigating effect on the recession has been the import demand by developing countries, which at present absorb 40, 45 and 34 per cent, respectively, of the European Economic Community (EEC), Japanese and United States exports. In 1975, when EEC had reached the lowest point of the recession and its exports to other developed countries were declining - by 17 per cent to the United States and by 3.3 per cent to other developed countries - exports to the developing countries increased by 25 per cent. 5/ It has been argued

4/ See evidence by Mr. Fred Bergsten, Assistant Secretary (International Affairs), Department of the Treasury, to the United States Senate Foreign Relations Committee, 1978.

5/ Commission of the European Communities, Europe and the Third World, A Study of Interdependence, Brussels, 1978.

that without the sustained import demand from developing countries, unemployment in the EEC area alone would have been higher by about 30 per cent. 6/

18. Conclusions of a study confirming the positive impact of growth in developing countries on the developed country economies, prepared by the UNCTAD secretariat, 7/ have been supported by a number of recent studies, including several simulations undertaken with Project LINK, 8/ a simulation experiment with the Wharton Annual and Industry Forecasting Model of the United States Economy, 9/ multiplier analysis of the OECD linkage model and the long-term Leontieff model. 10/

6/ Jonathan Power, "Tokyo: Third World State", International Herald Tribune, 30 June 1979.

7/ See, for example, "Trade prospects and capital needs of developing countries: report by the UNCTAD secretariat" (TD/B/C.3/134 and Add.1), paras. 17 and 75-78.

8/ In three simulations of the LINK system over different time periods - one over the period 1974-1976 and two over the period 1975-1978 - it was found that, compared with the control solution, the percentage increase in the level of OECD gross national product in the transfer simulation was between one fourth and one third of the percentage increase in the level of GDP of developing countries made possible by the transfer. These simulations also showed that the increase in the rate of inflation in OECD countries is only about one tenth of 1 per cent, compared to increases in the GDP growth rate of one half to eight tenths of 1 per cent.

The LINK system has been calculated to have an international multiplier after two periods of about 2.2. Thus, if all countries simultaneously increased expenditure on GDP by 1 per cent, after two periods, total output would have expanded by somewhat more than two. Recent work on the OECD international linkage model provides evidence of a two-period international multiplier of 2.04. Thus, one might expect results similar to those obtained with the LINK system if the OECD model were used to explore the effects of increased net transfer on the world economy.

9/ A simulation of the Wharton Annual and Industry Forecasting Model was designed specifically to explore the effect on growth and inflation, covering the 1969-1974 period, of changes in the composition of output owing to export-oriented stimulus compared with government expenditure or increased private consumption. Taking into account direct and indirect effects, 54 per cent of the increase in GNP resulting from the export stimulus was accounted for by increases in value added in manufacturing, compared with between 32 and 34 per cent in the case of an increase in consumption. Moreover, in the case of export-oriented stimulus, there was a significant correlation between increased output and excess capacity, while in the case of the increased consumption simulation, no such effect could be discerned.

10/ The long-term Leontieff model also provided evidence of a "growth feedback effect" when simulated recently by the Department of International Economic and Social Affairs and the Centre for Development Planning, Projections and Policies. In this experiment, a 1 percentage point increase in the level of output of developing countries was associated with a 0.2 percentage point increase in the level of the output in developed market-economy countries.

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19. It should be pointed out, in explicitly recognizing the mutually beneficial impact of resource transfers on the economies of both developed and developing countries, there is some danger that the objective underlying some of the proposals may be taken to constitute the primary rationale for transfer of resources. Experience has shown that assigning to resource transfers objectives other than the development of recipients frequently leads to frustration among both donors and recipients. On the one hand, the volume of resources implied in some of the proposals could hardly be expected to meet the objective of reviving the growth process in developed countries. Capital requirements to attain such an objective would appear to be beyond the scope of the resources and mechanisms proposed. On the other hand, making resource transfers even partially contingent upon or otherwise linked to the existence of certain problems in the developed countries raises the question of possible discrepancies between the requirements for a solution of such problems and the development objectives and priorities of developing countries.

20. It is in this context that the objectives explicit in many of the recent proposals need to be viewed: while transfer of resources contribute in an important way towards sustaining the level of economic activity in donor countries, this cannot be the primary motive for resource transfers, nor can it constitute a durable strategy of external assistance in the long run.

21. The case for resource transfer rests essentially on assisting the developing countries in bringing about the necessary structural changes in their economies. International discussions in recent years have identified a number of key areas for structural change in developing countries. These include the objective of raising the developing countries' share in global industrial output to 25 per cent by the end of the century, the objectives enunciated at the World Food Conference and subsequently pursued by the World Food Council, the implementation of the Integrated Programme for Commodities, measures to accelerate the technological progress of developing countries and to improve their access to international trading and financial markets.

22. The recent proposals will no doubt become the subject of intensive discussions in the context of the preparations for the international development strategy in the 1980s. In this connexion, it should be emphasized that the task of elaborating a framework for international financial co-operation as an integral part of the strategy is much broader and goes well beyond the scope of the proposals under review. 11/ These proposals can only be elements of a comprehensive framework which, inter alia, must address itself to the following considerations:

11/ See, for example, paragraph 2 of item 12 (e) of the Arusha Programme for Collective Self-Reliance concerning the "Review of the present system of international financial co-operation in the context of world trade and development and consideration of ways and means within this context to make it more effective in contributing to the development of developing countries". See also the report by the UNCTAD secretariat entitled "Towards an effective system of international financial co-operation" (TD/235).

(a) The volume, terms and conditions of external finance must be functionally linked to the development objectives the new Strategy seeks to promote;

(b) In the light of the growing need for concessional funds in many developing countries, official development assistance should again form the centre-piece of international financial co-operation. In order to have operational significance, however, the norms on concessional finance should be supported by mechanisms that would ensure consistency between development targets and performance under the norms;

(c) Adequate volume of balance-of-payments support on appropriate terms and conditions should be provided to insulate development programmes of developing countries from adverse world economic conditions;

(d) The role of official intermediation in private capital markets should be expanded through the establishment of new mechanisms and institutional arrangements. These institutional arrangements should aim at strengthening the recycling process and improving the volume, terms and distribution of non-concessional flows to developing countries;

(e) An effective review mechanism should be established to assess the impact of possible deviations from the prescribed norms on developing countries, in particular, and in the light of such assessment, measures should be recommended that are designed to restore consistency between development objectives and capital requirements.

III. PRINCIPAL FEATURES OF THE PROPOSALS ON AN EXPANDED VOLUME OF RESOURCE TRANSFERS TO DEVELOPING COUNTRIES

23. As mentioned earlier, a number of proposals have been put forward in the recent past with a view to generating an expanded volume of long-term financial resources to developing countries. 12/ The proposals originate in a number of instances from Governments and official institutions, while in others they reflect contributions from private institutions and individuals. As may be expected, the proposals embody varying degrees of technical and operational details and are at varying stages of consideration by the international community. Furthermore, the proposals differ with respect to their scale, the specific issues they deal with, their policy focus and the time-frame within which they are to become operational. They also differ with respect to the recipients of benefits from such an expanded programme of resource transfers.

24. On the whole, however, two approaches in their respective ways capture the wide variations encountered in the proposals; on the one hand, there is the proposal submitted by Sweden at the first session of the Committee of the Whole Established under General Assembly Resolution 32/174 dealing with the question of massive transfers of resources in the context of evolving global interdependence and managing longer-term structural transformation of the world economy. 13/ The other, proposed by Mexico, concerns the creation of a fund for long-term finance for a defined period and scale designed to enable developing countries to finance the purchase of capital goods from the developed countries. 14/ In between these two broad approaches stretches a wide range of ideas and suggestions. These include the position of the Member States of the Group of 77 expressed at the Third Ministerial Meeting of the Group of 77 in 1979, 15/ the proposal outlined by the Federal Chancellor of Austria 16/ and the proposal by the President of Venezuela, 17/ as well as suggestions made by the Secretaries-General of the Organization for Economic Co-operation and Development (OECD) and the

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12/ See annex I below.

13/ See submission by Sweden to the Committee of the Whole Established under General Assembly Resolution 32/174, at its first session (A/AC/191/12).

14/ This proposal was put forward by the Government of Mexico at the meeting of the Development Committee in April 1978.

15/ "Arusha Programme for Collective Self-Reliance and Framework for Negotiations", op. cit.

16/ Submission by Austria to the Committee of the Whole Established under General Assembly Resolution 32/174, at its first session (A/AC.191/15).

17/ The Venezuelan proposal was worked out in the course of 1977; the elements of the proposal were outlined by President Perez after the meeting in December 1977 of Ministers of the Organization of the Petroleum Exporting Countries in Caracas.

Commonwealth Secretariat and suggestions made by officials of the European Economic Community (EEC). 18/ The ideas and suggestions contained in a number of other proposals are summarized in annex I below.

25. Inevitably, the ideas and suggestions contained in various proposals overlap, in some cases to a significant extent. It is useful nevertheless to discuss the principal proposals as well as the main themes and approaches underlying various other proposals, under the following analytical categories:

(a) Improved management of the evolving interdependence in the world economy;

(b) Improved channelling of liquidity from international capital markets for long-term investment in developing countries;

(c) Specific sectoral focus designed to improve the supply of key commodities from developing countries;

(d) Improved process of balance-of-payments adjustment in developing countries.

A. Improved management of the evolving interdependence in the world economy

26. Recognition of the growing interdependence between the economies of the developed and the developing countries provides a point of departure for a number of proposals and ideas designed to manage and improve the evolving interdependence in the world economy. Interdependence is asymmetric, however, benefiting some countries more than others while rendering some more dependent than others. The adverse consequences of this asymmetry on developing countries are likely to persist unless there is far-reaching structural change encompassing trading, money and financial arrangements. In order, therefore, to underpin the process of structural transformation and better manage the evolving global interdependence it has been argued that a massive transfer of longer-term financial resources to developing countries should be initiated. An articulate exponent of this view, which has found wide appeal, particularly for the conceptual framework it provides in support of massive transfers, is Sweden. In a submission to the Committee of the Whole, Established under General Assembly Resolution 32/174, Sweden argued that

> "... transfer of financial resources of a massive magnitude would be an important means of improving the present level and structure of global demand. Generated demand through such action is likely to be directed to the export sector of the industrialized countries with generally high productivity and could therefore have a more favourable impact on inflation than internal policy measures, while having the same expansionary effects on production. At the same time, resource transfers along these lines would help meeting the financial needs of the developing countries. In the present international

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18/ Ideas by Mr. Claude Cheysson of the Commission of the European Economic Community.

economic situation, which is characterized by under-utilized productive capacity, a massive transfer of resources to the developing countries could be brought about with positive impact on investment levels in both industrialized and developing countries."

27. The crisis the world economy has been experiencing for the last several years has led to two broad sets of suggestions for its management and resolution. On the one hand, there is the view that a general stimulation of the world economy via a rapid infusion of additional transfers to developing countries would provide the necessary impulse to break the present circle of inflation, recession, unemployment and intensification of trade restrictions.

28. The other approach views the present economic malaise as being deep-seated and unlikely to be resolved by ad hoc reflationary policies. It is argued that such measures may stimulate demand, but not necessarily in the desired direction, and may intensify inflationary pressures. The transfer of additional resources in a framework that influences long-term investment in order to facilitate structural changes would provide a lasting solution to the present problems.

1. Short-term demand stimulation

29. Diagnosis of the present world economic situation has led some observers to view the current problems as essentially reflecting deficiencies in the structure of aggregate demand. This diagnosis has led to the suggestion that a substantial and rapid infusion of additional purchasing power, generated in the first instance via an expanded flow of funds to developing countries, would provide the necessary impulse to raise the level of global economic activity. The multiplier effects of added expenditures by developing countries, which have a higher propensity to spend, at the margin, than developed countries, would generate a large volume of import demand from the former and help reflate key sectors in developed countries. The net effect of concerted expansionary policies on developed economies would contribute to a restoration of business confidence, impart stability in the foreign-exchange markets and raise the rate of capital formation. Thus, the initial level of expenditure would be more than offset out of the additional output generated by expanded transfers. To the extent that the additional demand from a wide range of developing countries is likely to be concentrated on products of industries having excess capacity and of dynamic industries characterized by high productivity and growth potential, the effect of such demand is not likely to be inflationary.

30. An early exponent of the need to provide substantial additional purchasing power to the world economy is Mr. Claude Cheysson of the European Economic Community. With the success of the Marshall Plan in mind, he recommended the transfer to developing countries annually of an additional $10 billion over a three- to five-year period. The reasoning underlying the suggestion is that, in an interdependent world, stimulating demand only at the national level would fail to generate the required expansion.

31. Various other approaches, such as the proposals by Austria and the States members of the Group of 77, could also be viewed as providing short-term stimulus

to the world economy. In the Arusha Programme for Collective Self-Reliance and Framework for Negotiations (TD/236), the Group of 77 took the view that a massive transfer of resources to meet the needs of developing countries was a necessary precondition for the revival of the growth process in the developed world and more generally in the world economy. The group argues that, if the excess production capacity in the developed world is to be fully utilized, an initial additional financial transfer in the range of $35 billion to $50 billion would be required.

32. These approaches point to certain conditions that must be satisfied if they are to lead to the desired objectives. On the one hand, the expenditures proposed should be of a size adequate to influence materially the deep-seated problems in the world economy. On the other hand, the flows should be of a quick-disbursing type so that they may be rapidly absorbed in the recipient countries and translated into appropriate demand for imports in a short period. In the absence of a sizable infusion of programme or payments finance, the commitments may not materialize into disbursements for several years. Finally, one cannot assume that the pattern of additional demand will always be consistent with the pattern of unused capacity in developed countries.

2. Long-term structural transformation in the world economy

33. An alternative diagnosis of the present world economic situation views the present economic malaise as being deep-seated and unlikely to be resolved by *ad hoc* relationary policies. However, preoccupation in the developed market-economy countries with continuing crises in their own economies has tended to detract from the need for restructuring their economic relationships with developing countries. Some of the proposals, which assume that the key to the solution of the current international problems lies in the recovery of the developed market-economy countries, fail to take into account the relationships between the current economic difficulties of the developed countries and the disequilibria in the present international trading, monetary and financial systems.

34. It has been argued that the reconciliation of conflicting national economic objectives cannot be effected in a context of slow growth and structural disequilibria. It would require an agreed plan of action for restructuring of the world economy in order to reduce the gaps in standards of living and to rationalize the distribution of world productive capacity between developed and developing countries in the context of world growth and development. The structural changes would require large investments on a world-wide scale which, under current conditions, are beyond the capabilities of the private sector or a single country. If a longer-term programme of action could be agreed, the co-ordination of short-term policies would be easier, since the latter would have to be considered in the light of their consistency with internationally agreed norms and long-term objectives.

B. Improved channelling of liquidity from international capital markets for long-term investment in developing countries

35. Many of the recent proposals deal with two related aspects of the process of mobilizing and distributing more effectively liquidity from international capital

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markets for longer-term investments in developing countries. The first aspect revolves around the operations of these markets and ways and means of strengthening them so as to ensure continued growth in the supply of credit from commercial banks. The second aspect deals with mechanisms for recycling more effectively the savings of capital-surplus developing countries to deficit developing countries.

36. The rapid growth in commercial bank credits in recent years has brought to the fore the nature and process of intermediation performed by private banks. The process consists essentially of transforming deposits of a short-term nature into long-term assets in the form of loans. While the advantages of this process are manifold and widely recognized, this process has limits beyond which it poses certain dangers. Given the nature of the market, the process of intermediation is not underwritten by rules and regulations which govern the process of credit creation at the national level. As a result, the structure of credit is vulnerable to rapid shifts in asset preferences of depositors and lenders and thus potentially unstable. It has been argued that, in the absence of improved official intermediation, a further expansion in private finance under present conditions may not be desirable. In a submission to the Group of High-Level Experts on Finance for Development, Governor Zolotas 19/ argued that, in order to underpin better the process of intermediation, an international investment insurance loan fund should be established wherein potential borrowers and lenders could obtain insurance against default of loans.

37. With respect to the question of improving the recycling process of the long-term savings of capital-surplus developing countries, which are among the principal sources of deposits in the private commercial banking markets, it is generally acknowledged that there is considerable scope for utilizing these resources for longer-term investment in other developing countries. For a variety of reasons, however, the size of such investment has not been of a level considered desirable by both the capital-surplus developing countries and other developing countries. The capital-surplus developing countries' concern revolves around the continuing erosion in the value of their capital assets, the financial counterpart of their current account surpluses, as a result of the instability in foreign-exchange markets and growing inflation in developed countries. Their present inability to counteract this erosion relates to the limited role and participation they have in decision-making with regard to financial intermediation. The absence of developed national capital markets and of the necessary financial institutions constrains them to rely on private institutions in developed countries for financial intermediation. The process of intermediation in international capital markets is such, however, that it fails to meet adequately the concerns of capital-surplus developing countries, on the one hand, and of the borrowing developing countries on the other.

38. As a result of the limited influence which capital-surplus developing countries have in the decision-making process of international institutions, their participation in the channelling of their savings to other developing countries is substantially less than is warranted by the needs of these countries.

19/ See the report of the Group of High-Level Experts on Finance for Development (TD/B/722), annex I.

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39. Among the recent proposals dealing with the question of improving developing countries' access to non-concessional sources of financing, on the one hand, and of improving the process of channelling resources from capital-surplus developing countries, on the other, proposals by Mexico and Venezuela are worthy of particular consideration.

1. Mexican proposal for the establishment of a long-term facility for financing purchases of capital goods by developing countries 20/

40. The Mexican proposal has found support in the Arusha Programme for Collective Self-Reliance and Framework for Negotiations, which states that the proposal should be considered as quickly as possible "with a view to taking a positive decision at the earliest possible date".

41. Among the objectives of the Mexican proposal is the provision of long-term financing to developing countries, in order to purchase capital goods from developing countries as well as developed countries.

42. The principal features of the Mexican proposal, as set out in the paper submitted by the Mexican Government to the Development Committee in April 1978 are as follows:

(a) A long-term fund of $15 billion would be created by borrowing on world markets. The borrowing operation might be in three successive tranches of $5 billion each;

(b) The fund would be managed by an international financial institution such as the World Bank;

(c) Bonds would be denominated in Special Drawing Rights (SDRs), with a 15-year maturity and yielding a market rate of interest. Thus, there would be no concessional element involved. A secondary market could be established in these bonds;

(d) Loans would be made from the fund to projects, sector programmes and perhaps private firms in developing countries. Such loans would be made only for projects or investment programmes which the World Bank or other managing institutions expect to yield an acceptable rate of return. These loans could be guaranteed by the Governments of the borrowing countries, or by the Governments of certain developed countries;

(e) Capital goods would be purchased out of these loans both from developed countries whose Governments (or other institutions) have made, or guaranteed, loans to the fund, as well as from developing countries.

43. The new fund would offer bonds with a 15-year maturity, and denominated in SDRs, to Governments or central banks, commercial banks and long-term investors, such as pension funds and insurance companies. The interest rate offered, which could vary for each of the three SDR 4-billion bond issues envisaged, would be determined in the light of the prevailing level of interest rates and the perceived credit-worthiness of the new fund.

20/ For the text of the proposal, see annex II below.

44. Loans would only be made on the understanding that the money lent would be used to purchase capital goods from one or more of a list of countries comprising (a) all developing countries; (b) developed countries of which the Governments and certain other institutions had purchased some minimum amount of the bonds issued by the new fund; and (c) developed countries whose Governments had guaranteed some minimum amount of the new fund's bond issue.

45. One specific question that arises relates to the desirability of maximum or minimum limits on the size of the loan to be made under the scheme. If the rate of disbursement is to be, as was implied earlier, of the order of SDR 2.5 to 4 billion per year, some very large projects will probably need to be financed; and to impose a limit on the size of loans that may be made for any particular project might in itself be undesirable. On the other hand, if no upper limit is imposed on the loans that may be received by any particular country, a disproportionate share of the total could go to a relatively small number of countries. A different kind of problem is that if no lower limit is placed on the size of applications for loans, the need to process a large number of small applications might overwhelm the technical resources at the disposal of the new fund. The argument is probably stronger for a minimum than a maximum limit; but in either case, any initial determination might need to be provisional, and subject to amendment as the new fund accumulated experience.

46. A second issue relates to the kind of project which should be eligible for loans from the new fund. Projects likely to yield an acceptable rate of return would clearly be eligible. However, for projects with a social rate of return higher than the market rate of return, the servicing and amortization of the loan from the new fund would be difficult and might have to be underwritten by the borrower Government. Where Governments are willing to do this, however, there would be a strong case for regarding such projects as eligible for loans under the new scheme.

47. The central feature of the proposal is to mobilize resources from capital markets under the aegis of appropriate national guarantees in order to render the bonds issued by the new fund attractive to the Governments of developed countries and of developing countries with balance-of-payments surpluses, and to private institutional investors. The denomination of the bonds in SDRs would in itself be a helpful feature; however, developing countries whose currencies depreciate significantly over time in relation to the SDR would need a correspondingly high cash flow to be generated by their projects if interest and amortization payments were to be met. In order to enable the fund to borrow in international capital markets on terms which permit loans to be made to developing countries at acceptable rates of interest, guarantees of developing countries alone, however, may not suffice; developing countries' guarantees may have to be supplemented by those of multilateral institutions.

48. If, as appears likely, guarantees taking the form of a <u>lien</u> on the capital goods purchased under the scheme may not be widely acceptable, the bulk of any guarantees that were forthcoming would need to be provided by the Governments of developed countries. However, such guarantees, if called upon, could constitute a charge on developed countries' budgets and would thus require appropriation of additional funds. The present proposal assumes that, because the potential resource

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costs would be small in relation to the benefits which the scheme would bring to developed countries in terms of higher exports and employment, and because the probability that the guarantees would be called upon is relatively low, the potential charge on developed countries' budgets would not to any significant extent reduce other aid flows.

2. Proposal by Venezuela on the establishment of OPEC development bonds

49. The principal concerns of three groups of countries, namely, developed market-economy countries, OPEC countries, and non-oil developing countries, arising from the present international situation provide the essential rationale for the proposal put forward by the President of Venezuela on the establishment of long-term OPEC development bonds, to be financed in capital markets. In the developed market-economy countries, capital investment is believed to be stagnating as a result of high rates of inflation, unemployment and low productivity growth. Among the developing countries, on the other hand, surpluses of OPEC countries are not recycled on a sufficiently long-term basis, while the financial requirements of non-oil developing countries are not met and they suffer mounting debt-servicing problems. In these circumstances, it is argued that the transfer of excess OECD and OPEC savings to developing countries would be beneficial to all parties; it would contribute to raising the level of effective demand in developing and developed countries and would provide an improved investment channel to OPEC countries.

50. The excess savings of OECD and OPEC countries would be pooled and lent to developing countries on a long-term basis. To some extent these funds would be "targeted" towards sectors where world supply bottle-necks threaten to appear in the medium term. Initially they would also be directed towards projects whose associated imports would tend to match OECD industries with spare capacities, but only for long enough to permit structural adjustments to take place in OECD countries which would encourage a reduction in protective barriers against developing country exports.

51. Of the total fund of between $16 billion and $20 billion, perhaps as much as 75 to 80 per cent would be raised by selling triple A-rated long-term OPEC development bonds in capital markets. OPEC countries themselves would agree to purchase about 20 to 25 per cent of the bond issues and would act as a first guarantor of the bonds taken up by private investors, while the World Bank Group might act as a second guarantor to the OPEC countries. The remaining 20 to 25 per cent of the total would be subscribed by the developed countries out of existing aid budgets or out of an expanded aid programme.

52. In the short run, loans would be targeted towards projects which might be expected to require imports from industries in OECD countries that are suffering from excess capacity, though this emphasis would only be appropriate for the first few years, until intensified efforts by OECD countries to restructure industry in line with evolving patterns of comparative advantage started to bear fruit. In the medium term, funds would also be targeted, subject to the agreement of developing countries, towards sectors such as energy and minerals and their related inputs and infrastructure.

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53. The Venezuelan proposal has the merit of proposing financing arrangements which address the magnitude of the problem currently facing developing countries. There are questions, however, about how far the sum proposed could represent an additional to existing flows. It is true that, if OPEC countries subscribed to 20 to 25 per per cent of the issue, some additionality would occur, since these funds might not otherwise have found their way to developing countries; and there would probably also be some lengthening in the maturity of loans. Similarly, OPEC and World Bank guarantees might well result in a considerable increase in the net flow of funds from private institutional investors in OECD countries.

C. Specific sectoral focus designed to improve the supply of key commodities from developing countries

54. The prospect of assured availability of a number of key commodities of vital interest to the world economy has received considerable attention in recent years. Foremost among these are energy, food and a number of raw materials, particularly minerals of critical importance in industrial processing. It has been argued that the long-term investment requirements of some of these sectors appear to have fallen short of the levels required to sustain continuing growth in their supply. Much of the investment requirement is characterized by long lags between investment and output requiring volume of investment on a scale frequently beyond the capability of an individual investor. With respect to energy and mineral exploration, furthermore, investment decisions are inherently risky and, in order to attract the requisite volume of investment, the prospects of adequate return on capital including risk premiums, need to be clearly recognized.

55. Among the proposals that have been flagged with specific sector focus, mention must be made of the proposal by the Secretary-General of OECD regarding stepped-up investments in developing countries via expanded co-financing in the field of energy, food and raw material production and processing.

OECD proposal for stepped-up co-financing for investment in developing countries

56. At the Ministerial Council meeting in June 1978, OECD Ministers noted that "increased investment in developing countries would contribute to sustained and more balanced world economic growth as well as enhancing development in the countries concerned. Both developed and developing countries, therefore, should have a mutual interest in measures to stimulate investment in developing countries on an economic basis".

57. In order to help developing countries attract increased investment, it is proposed that there should be a major expansion, beyond the levels at present envisaged, in the co-financing operations of the multilateral development lending institutions with private banks. The thrust of this stepped-up investment should be consistent with the development priorities of developing countries. While focusing on the need to expand output in sectors such as energy, food production, raw materials and processing, and related infrastructure, which are important for sustained economic growth in both developed and developing countries, such added investments would stimulate demand and increase production in both developing and developed countries.

58. The main source of funds would be an increased level of non-concessional lending by the private international banking system, stimulated by an extension of the "umbrella" activities of the World Bank. It would be necessary for the World Bank to announce a clear policy decision to expand co-financing beyond present plans, and take the necessary steps to strengthen its capacity to assist developing countries.

59. Sectoral emphasis in the areas of energy, food and raw materials is at the centre of this proposal. It is argued that structural change in the energy sector over the medium to long term are required in order to move away from oil as the dominant source of energy to other and longer-lasting renewable sources of energy. Similar considerations are also relevant for investment in food and raw material production. With respect to food, the OECD countries have somewhat mixed interest inasmuch as they are major producers and consumers of food. On the question of food security, however, the OECD countries have a long-run interest in seeing developing countries able to satisfy their food requirements and lessen their dependence on food aid. As to raw material production and processing, the bulk of expenditure and exploration takes place in the developed countries, but it is recognized that developing countries, while being major potential suppliers of many key commodities, for a variety of reasons have not been successful in investing adequate amounts of capital for increasing capacity in this area. One problem relates to the fact that much of the investment in this sector is of private origin; in order, therefore, to encourage this, it would be necessary to make appropriate institutional arrangements for private capital flows to this sector.

60. The principal instrument envisaged for stepped-up investments in order to accomplish these objectives is increased co-financing between multilateral institutions, developing countries, national aid agencies, non-concessional official financing facilities and private banks. Co-financing, usually undertaken under the aegis of a lead agency - typically the World Bank but increasingly the regional development banks as well - is believed to be able to (a) strengthen the links between borrowing countries and the international private banks, (b) provide developing countries with access to different sources of external financing, (c) assist developing countries in presenting sound projects to the investment community and (d) help developing countries obtain better terms, including longer maturities, than could be obtained in the private capital markets. The proposal goes on to elaborate the envisaged contributions and policies of donor developed countries, developing countries, multilateral financial institutions and private banks.

61. The main attraction of the OECD approach lies in the broad set of policy recommendations regarding an expansion in co-financing arrangements. The desirability of co-financing arrangements has been recognized, in principle, by developing countries able to absorb this form of financing, by developed countries as well as multilateral institutions and private investors. Since multilateral institutions have already set in motion plans to expand co-financing arrangements, the OECD suggestions would have the effect of lending greater support to objectives generally endorsed by the international community.

62. A limitation of the scheme is that the main beneficiaries would tend to be middle-income countries with the ability to absorb additional funds in projects likely to yield a commercial rate of return. It would only to some extent help poorer countries whose main need is for financial and technical assistance on concessional terms. Although a greater flow of non-concessional finance to middle-income countries might displace some official development assistance, which could then be channelled to the least developed countries, the additionality stemming from such displacement is likely to be small.

D. Improved process of balance-of-payments adjustment in developing countries

63. The large and persistent payments difficulties experienced by developing countries in recent years have focused attention on the question of the adequacy of official balance-of-payments financing. Such financing, of course, is not itself directed towards the long-run transfer of resources - resource transfer is at most only an incidental and short-term consequence of its utilization. None the less, it has become increasingly recognized that an adequate system of official payments finance is a necessary financial complement to the process of resource transfer. For example, the benefits from higher levels of investment resulting from development assistance can be negated over the short- and medium-run if payments problems are allowed to lead to a substantial reduction in imports, thereby idling existing productive capacity.

64. In approaching the question of official payments finance, it is important to bear in mind the changed character of the deficits of the developing countries, which, in recent years, have been primarily the result of external forces. These forces, the most important of which are the changes in relative prices of traded goods, slower growth in the industrial countries and world-wide inflation, require appropriate adjustment in the domestic economies of developing countries. Unlike deficits resulting primarily from excess demand or credit expansion, however, these deficits cannot be reversed in a period of two or three years without incurring very high costs in terms of foregone output and employment. Adjustment requires changes in the structure of production, which can be brought about only over a longer period of time.

65. A further consideration that needs to be borne in mind is that a number of countries in the payments system has experienced substantial and persistent surpluses during recent years. This had occurred for a variety of reasons. In the case of an industrial country, it could result from an exchange rate or industrial structure that made the country particularly competitive or from the maintenance of an unusually low level of domestic demand. Persistent surpluses on the part of some petroleum producers reflect their inability to utilize fully the financial earnings that result from meeting the energy needs of the world economy. In either case the surpluses cannot be adjusted quickly without high costs to the country in question and to the system as a whole. The consequences of the surpluses, however, are counterpart deficits elsewhere in the system. Since the surpluses can only be reduced over an extended period of time, it follows that the counterpart deficits will also need to be adjusted over a similar length of time.

66. As a result of both of the above considerations, it is increasingly being recognized that international support for the adjustment process of developing countries must now include substantial provision for official payments finance at medium-term. One way of doing this would be to establish a multilateral facility to deal with externally induced deficits. This idea was discussed at the fifth session of UNCTAD on the basis of recommendations put forward at the ministerial meeting of the Group of 77 held in Arusha. It was argued that policies to deal with the payments deficits currently facing developing countries would require a global approach emphasizing the external factors involved rather than concentrating solely on measures to be taken by the deficit country involved. 21/ Similar ideas and a concrete proposal for the establishment of a medium-term facility in IMF were elaborated in the UNCTAD/UNDP project report on the balance-of-payments adjustment process in developing countries, and are discussed below.

Proposal for the establishment of a medium-term facility

67. The proposal, as set out in paragraph 35 (vii) of the recommendations of the UNDP/UNCTAD project's report, 22/ is that:

> "A medium-term facility should be established at a substantial level of resources to provide balance-of-payments support over periods of 5 to 10 years. The funds for such a facility could be raised in capital markets along the lines employed by the World Bank. The terms and conditions of loans should be adjusted to the circumstances of borrowing countries, and since commercial terms would be inappropriate for the poorest countries, it is a condition for the viability of this proposal that provision should be made for interest subsidies to the countries already eligible for such subsidies under the Fund's oil facility."

(a) Size of facility

68. The amount of the financial resources needed to create the medium-term facility would depend upon (a) the number of countries covered by the scheme; (b) the maximum drawing entitlement of each such country; and (c) the extent to which such countries drew on the new facility at the same time. For example, on the assumption that (a) coverage was in practice confined to non-oil-exporting developing countries; (b) maximum entitlement was equivalent to 100 per cent of quota (after the Seventh General Review becomes effective); and (c) at any given time the maximum drawings outstanding were equivalent to full entitlement by countries whose quotas accounted for half total developing country quotas, or three quarters of full entitlement by countries whose quotas accounted for two thirds of total developing country quotas, then the new facility would need resources of a little under SDR 10 billion.

21/ Arusha Programme for Collective Self-Reliance and Framework for Negotiations (TD/236), pps. 51-53.

22/ UNDP/UNCTAD Project INT/75/015, The balance-of-payments adjustment process in developing countries: Report to the Group of Twenty-Four (2 January 1979).

(b) Eligibility

69. The proposed new facility is designed to help countries experiencing payments difficulties arising from forces beyond their control and which are not likely to be self-reversing over the short term. The facility is thus not designed to deal with imbalances resulting from an excessive level of domestic demand or a sudden fall in export prices, which is likely to be self-reversing.

70. It is recognized that in most instances there will be difficulty in determining the precise extent to which the payments problems of a particular country derive from domestic or foreign factors, and the extent to which they are reversible in the short term or are of a longer-term character. It is also recognized that in many instances a combination of factors will be operating on the external accounts, some of which may indicate eligibility, and some of which may not. In these circumstances, a considerable element of judgement would be involved.

71. The judgement required in ascertaining eligibility for access to the proposed facility would, however, need to be guided by some objective criteria. These would need to reflect two separate types of external disturbance bearing on the payments situation of developing countries.

72. The first of these is system-wide phenomena unrelated to particular trade flows or identifiable financial transactions. This would arise, for example, from a persistent surplus on the part of a major industrial country resulting from an exchange rate or industrial structure that made it particuarly competitive or from the maintenance of an unusually low level of domestic demand.

73. A second type of situation would arise when external shocks were transmitted to a country through specific trade or financial transactions or policy actions by important trading partners. This would be the case, for example, when protectionist measures had been taken with respect to current exports; where competition for traditional exports had emerged from new producers or substitute products; where there had been a rapid and sustained increase in the prices of essential imports such as petroleum; or where there had been sustained and secular declines in the prices of major exports. In these cases, access to the proposed new facility may be determined by rough quantification of the disturbances operating on the external accounts.

(c) Conditionality

74. Like the Compensatory Financing Facility, introduced in 1963 to assist countries experiencing temporary export shortfalls, and the Oil Facility, introduced in 1974 to assist countries seriously affected by steep oil price increases, the proposed Medium-Term Facility is designed to help countries cope with a problem outside their immediate control; in this case deficits of a structural nature. As with the Oil Facility, therefore, it would be appropriate for access to the new facility to be subject only to conditionality similar to that of the first credit tranche of IMF. While it is recognized that the mere fact that a balance-of-payments deficit is to factors beyond the control of a country does not necessarily mean that adjustment can or should be avoided, there is a case for saying that the type of upper-credit

tranche conditionality that is applicable to cases of excess demand would not be appropriate. The role of a medium-term facility in such a case is to provide sufficient recyling of resources to permit the requisite adjustment to be programmed over a reasonable period, so as to avoid disruption of a country's development programme. While there is a need to monitor the progress made in effecting the structural changes required, there should not be a need to impose a severe régime of fiscal and monetary contraction such as would be required where the disequilibrium originated in domestic economic management.

(d) Terms

75. Except for low-income countries, interest charges would be equivalent to the interest rate paid by the Fund on its own borrowings (see "Financing" below), together with a small service charge of the kind levied in connexion with purchases under the supplementary financing facility. For low-income countries (defined, for example, as the 60 or so countries entitled to receive loans on concessional terms from the Trust Fund established in 1976 or, alternatively, the rather smaller number of countries entitled to benefit from the Subsidy Account established in 1975 in connexion with the Oil Facility) an interest subsidy would be provided. This subsidy could be used to reduce the interest payable by low-income countries to a nominal 1/2 per cent, as in the case of loans from the Trust Fund; or to reduce the non-concessional rate of interest by a certain amount, as in the case of the 5 per cent interest rate reduction financed by the Subsidy Account.

(e) Financing

76. Although the proposed new facility could in principle be financed by subscriptions and, if lodged within the Fund, by new capital of the kind periodically used to increase quotas, the difficulties experienced in recent years in increasing quotas in line with requirements suggest that a more promising approach may be an issue of bonds by the facility on the international capital market. Provision for such borrowing is made in the Fund's original Articles of Agreement, and there are no practical reasons why this cannot be done. The institution should be able to borrow at a 10-year maturity at a highly competitive interest rate. At the same time, the resources that it might need to raise are sufficiently small in relation to the size and elasticity of the international capital market to provide little reason to suppose that borrowing by the Fund would "crowd out" other national or international borrowers.

77. An important advantage of borrowing in the private capital market is that it would allow a considerable power of initiative to mobilize resources without having to go through the difficult and cumbersome procedures involved in securing new resources from Governments. It should also impart a degree of flexibility to the size of the resources mobilized in response to the changing world economic situation.

78. To finance the subsidy proposed above on the interest rate paid by low-income countries would be one of the most difficult, but essential, parts of the operation. One possibility would be to invite high-income members of the Fund to contribute towards a Subsidy Account of the kind established in connexion with the Oil Facility.

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Alternatively, the profits from further sales of gold by the Fund - beyond those at present envisaged - could be used to finance the subsidy, though this would require the agreement of the United States Congress. The sale of an additional 10 million ounces of gold, at the July 1979 price of around $300 an ounce, would yield a profit of approximately SDR 2 billion, a figure which should permit a substantial subsidy to be provided to low-income countries making use of the medium-term facility during at least the first 10 years of its existence.

IV. SCME PRINCIPAL QUESTIONS AND ISSUES

79. Some of the ideas and suggestions contained in the proposals have been on the agenda of the international community for many years now. In particular, protracted negotiations have taken place over a long period on mechanisms relating to resource transfers: these have included the question of the establishment of an SDR link, ways and means of placing concessional finance on a more assured footing and of improving developing countries' access to international money markets, particularly by utilizing the existing guarantee powers of multilateral institutions. The lack of progress in this area relates, principally, to the degree of political commitment in developed countries. To the extent that the recent approaches help mobilize political commitment, which is assumed to exist in varying degrees in all developed countries, to the cause of resource transfers, they deserve the fullest international consideration.

80. In attempting an over-all evaluation of the basic concepts underlying the proposals, as distinct from questions of detail that are raised by specific proposals, a number of problems are encountered.

81. It is not always possible to establish with certainty whether the proposals are conceived for detailed intergovernmental consideration or whether they reflect tentative contributions in an area of growing concern to the international community. Another difficulty arises with respect to the absence of operational content in many of the proposals. While some, such as the contribution by Sweden, provide a broad conceptual framework and the essential rationale for an expanded resource transfer to developing countries, others, such as the proposal submitted by Mexico, contain detailed operational features in a form ready for intergovernmental consideration.

82. A parallel has been drawn between some of the recent approaches to increased capital flows and the launching of the Marshall Plan for the reconstruction of post-war Europe. 23/ The experience with the Marshall Plan, however, points to a number of features which proposals on increased transfers should have for the parallel to hold. One of the important features of the Marshall Plan was the single-minded commitment of the United States of America, which financed the Plan for the reconstruction of Europe. The formulation and financing were premised on the desirability of the European recovery as the main objective. Secondly, the concessional transfers associated with the Marhsall Plan were relatively larger than those envisaged under some of the present proposals. 24/ They were characterized by simplified disbursements procedures, a high degree of concessionality amounting in most cases to grants, or embodying grant element

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23/ See, for example, "Call for new Marshall Plan", Financial Times, 24 July 1979, and Sir Bernard Braine, "A Marshall Plan for the third world", Third World Quarterly, April 1979.

24/ At its peak, the volume of resources under the Marshall Plan amounted to about 2.7 per cent of the United States GNP. The comparable present share for developing countries amounts to 0.23 per cent of the United States GNP in 1978.

well beyond the present norms of the Development Assistance Committee (DAC) for developing countries. Thirdly, apart from the volume of transfers, which amounted to $3 billion annually over a four-year period (1948-1952), the objective was relatively limited and well defined, namely, the provision of foreign exchange with which to enable the recipients to import equipment, technology and raw materials. Finally the recipients joined together in the Organisation for European Economic Co-operation (OEEC), the predecessor of OECD, in which they shared important responsibility for the distribution of Marshall Plan resources among them. It can be reasonably argued that most of these features are largely absent from the present donor-recipient relationship.

A. The question of scale, terms and conditions of expanded transfers

83. While the concept of massive transfers has been endorsed in a general way by Conference resolution 129 (V), in which it noted that a substantial increase in transfer of resources is an indispensable factor for accelerating the pace of development in developing countries, questions remain about its scale, additionality and the over-all terms and conditions of transfers.

84. Collectively, the proposals are frequently referred to as envisaging massive increases in resource transfers: a comparison of suggestions in the proposals reveal, however, that while some do envisage large increases over existing levels of net flows, others are relatively modest in scope. In the former category may be included proposals by the Mitsubishi Foundation, 25/ by Senator Javits 26/ and the proposal submitted by Venezuela. 27/ The latter category includes suggestions by the Federal Chancellor of Austria, 28/ recommending the establishment of an infrastructure fund of $1 billion, and suggestions by the Secretary-General of OECD recommending an expansion in co-financing arrangements.

85. It has been argued earlier that the question of scale of transfers would depend, ultimately, on the capital requirements of developing countries. These requirements, in turn, would reflect the development objectives the international community seeks to promote in developing countries.

86. If developing countries during the decade of the 1980s are to offset the

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25/ The proposition for "The Global Infrastructure Fund", presented by the President, Mitsubishi Research Institution Inc., Tokyo, Japan, August 1978.

26/ See resolution S. RES. 441 (95) (United States Congress, second session), 24 April 1978.

27/ The Venezuelan proposal was worked out in the course of 1977, the principal elements of which were outlined by President Perez after the December 1977 meeting of Ministers of the Organization of Petroleum Exporting Countries at Caracas.

28/ See the contribution by Austria (document A/AC.191/15) at the first session of the Committee of the Whole Established under General Assembly Resolution 32/174.

shortfalls in the target rate of growth of 6 per cent experienced during the decade, requirements for concessional flows may well exceed those implied by the current minimum target of 0.7 per cent of GNP of developed countries. Preliminary calculations by the Committee for Development Planning 29/ suggest that to reach a rate of growth of 7 per cent in the GDP of developing countries as a group throughout the 1980s would require official development assistance flows to build up to about $66 billion in 1990. On certain assumptions about states of economic growth, this would represent about 0.75 per cent of GNP of developed countries.

87. In the light of the worsening debt problems facing many developing countries, the question of the terms of over-all transfers assumes particular significance. Many of the recent proposals, however, deal with private capital and envision an expanded role for non-concessional finance. The emphasis on non-concession flows is not surprising in view of its growing importance, on the one hand, and the policy options that exist for improving the terms and conditions of private finance on the other. In recognizing the dangers associated with the present distribution of concessional and non-concessional finance, Conference resolution 129 (V) stated that, while the substantially increased transfer of resources would be largely raised on financial markets, this should be done without prejudice to concessional flows. Ideally, therefore, expanded arrangements for resource transfers should aim at reducing the sharp dichotomy that at present exists between official flows development assistance flows, on the one hand, and non-concessional flows on the other. Appropriate arrangements for blending them would make possible a more flexible system permitting a variation of terms consistent with debt-servicing capacity of borrowing countries. This would in all probability generate a higher volume of resources than has hitherto been the case.

88. Considerable scope exists, for instance, for combining more effectively private and public sources of financing. Several of the recent proposals deal with this issue and implicitly acknowledge that, in the absence of improved official intermediation, further expansion in private finance under present conditions may be neither feasible nor desirable. The principal areas of interest and action in this regard revolve around the creation of institutional arrangements and mechanisms that make use of interest-subsidy funds and multilateral guarantees for strengthening the recycling process and improving the volume, terms and distribution of non-concessional financial flows to developing countries. The attraction for many developing countries of proposals such as that put forward by Mexico would be considerably enhanced if interest-subsidy arrangements were associated with the proposal. Similarly, the establishment of multilateral guarantees could considerably strenghten the role of private capital in financing the long-term needs of developing countries.

1. The question of interest subsidies

89. Discussion on the role an interest-subsidy mechanism might play in promoting the flow of financial resources to developing countries have a long history in

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29/ *Official Records of the Economic and Social Council, 1979, Supplement No. 6* (E/1979/37), para. 55.

UNCTAD. 30/ In recent years, both the World Bank 31/ and IMF 32/ have established interest-subsidy accounts. The initial contributions to the World Bank's "Third Window" Interest Subsidy Fund, amounting to $155.8 million, enabled the World Bank to commit funds roughly three times the size of the Subsidy Fund.

90. The resources available under the "Third Window " have been fully committed; on the basis of the experience to date, however, and in light of the growing requirement in developing countries for concessional finance, it has been suggested that the "Third Window" operations of the World Bank be revived. In its resolution 129 (V), the Conference agreed on the importance of reviving the Third Window "so as to make more flexible the pattern of resources available to developing countries". The attraction of this form of financing arrangement occurs in the situation where concessional funds are not available in the form of cash grants of the same magnitude as the contributions that would be made to an interest subsidy or when borrowing from capital markets is difficult. It has been shown that the establishment of interest subsidies in such instances can lead to a larger flow of funds than would otherwise be the case. 33/

91. For Governments providing funds to developing countries, an important consideration is whether interest subsidization is likely to lower the transaction costs. Under interest-subsidy programmes, the amount of moneys that Governments used to allocate is only a relatively small fraction of the face amount of the loans granted. On the other hand, the moneys would need to be in the form of grants rather than soft loans, which may raise problems of legislation approval. On balance, however, interest subsidization is likely to result in higher flows of concessional finance to developing countries.

92. The leverage possible in interest subsidization is particularly attractive in light of the urgency and magnitude of the need of developing countries for concessional funds. Indeed, a shift towards interest subsidization, either through revival of the "Third Window" of the World Bank and the establishment of "third windows" in regional development banks or through similar national programmes, could play an important role in channelling rapidly the flow of concessional finance. Such arrangements could also impart a measure of stability to the private capital markets.

2. The question of guarantees

93. The question of extending guarantees to the financial obligations of developing

30/ See Proceedings of the United Nations Conference on Trade and Development, Second Session, vol. I and Corr. 1 and 3, Report and Annexes (United Nations publication, Sales No. E.68.II.D.14), annex VII, C, para. 24.

31/ In July 1975, the World Bank established the Third Window Interest Subsidiary Fund.

32/ Alongside the Oil Facility, IMF established an interest-subsidy account.

33/ See "Financial mechanisms for the future" (TD/B/C.3/127).

countries has been the subject of considerable intergovernmental attention in recent years. 34/ In practice, guarantees could be extended in either a bilateral or a multilateral framework. Since bilateral guarantees are of relevance essentially for countries possessing substantial and active capital markets engaged in international transactions and since such guarantees raise the issue of burden-sharing among capital supplying countries, attention has focused on guarantees in a multilateral framework. The Articles of Agreement of all the major multilateral lending institutions are endowed with powers to extend guarantees. In the case of the World Bank, for example, it was anticipated that the guarantee powers at its disposal would be the major means for mobilizing resources for development. One obstacle to the use of these powers is the charters of those institutions, which require that a charge corresponding to the full amount of the guarantee be made against their capital resources. However, guarantees involve only a sharing of responsibilities in the case of default. Once it is accepted that the actual resource requirements entailed by guarantees is the premium to cover the risk of default and is therefore much less than the face value of such guarantees, then, on the basis of a given amount of subscribed capital, it would become possible to mobilize a much larger sum of total financing. The advantages associated with the leverage made possible by providing callable capital on a contingency basis has be been widely recognized at a national level. Thus the application of this principle at an international level should not present insurmountable problems, since the probability of the contingent callable funds actually being required would be very low and the calls themselves known well in advance.

94. Two possible approaches to achieving this objective in practice are worthy of consideration. One would be to amend the charters of the multilateral development institutions in such a way as to permit them to value the obligations arising from guarantees as risk premiums. The other would involve the establishment of appropriate guarantee arrangements in support of the relevant expanded transfer proposals. Such arrangements would be based partly on paid-in capital and partly on a much larger sum represented by funds callable only on a contingent basis.

95. The questions of interest subsidies and multilateral guarantees envisage an expanded role for multilateral institutions in channelling funds to developing countries. The capacity of the multilateral institutions to undertake expanded intermediation in capital markets has been significantly enhanced as a result of the decisions to augment their respective capital bases. It has been clear for some time now, however, that arrangements for increasing the lending capacity of the multilateral development institutions are a necessary but by no means a sufficient condition for the realization of the full potential of these institutions in the field of international financial co-operation. If this aim is to be achieved, it will be necessary to ensure that the lending policies and programmes of these institutions meet the external financing needs of recipient countries in a manner which is consistent with the internationally established norms. In defining the role of the existing institutions in generating expanded flows, Governments need to consider what arrangements should be made to ensure a greater degree of

34/ See the report of the Group of High-Level Experts on Finance for Development (TD/B/722) and General Assembly resolution 33/137 entitled "Finance for development".

consistency between the broad development objectives adopted by the General Assembly and other United Nations forums and the operations of the multilateral development institutions.

B. Import demand of developing countries and the solution of sectoral problems in developed market economies

96. In the different proposals for an expanded transfer of resources to developing countries much attention is given to the effect of such a transfer in reducing levels of unemployment and excess capacity in the developed market economies. This effect is transmitted, on the one hand, by increasing demand for products of certain industries that suffer from excess capacity; and, on the other hand, by increasing demand on dynamic industries which, even if they do not have excess capacity, would, nevertheless, have the high productivity and growth potential to absorb resources released from industries in secular decline.

97. There are, to be sure, certain difficulties that might hinder the above-mentioned effect from working itself through, such as the time which should elapse before the additional demand generated by the transfer made itself felt. Available evidence suggests that rates of capacity utilization are often subject to fairly substantial fluctuations from year to year. Another difficulty relates to the uncertainty concerning the pattern of that demand. In cases where the transfer is intended to have a direct impact on industries suffering from excess capacity, there is no way of ensuring that the additional import demand would be concentrated on the sectors in industrial countries most severely affected by the recent recession, by problems of a longer-term character or both.

98. If the desired effect of the transfers, however, is principally to stimulate the growth of dynamic industries, it is reasonable to expect that demand for imports from some of the dynamic industries in developed countries might indeed increase as a result of the rise in investment in developing countries made possible by the transfers.

99. In the case of industries producing machinery and equipment, for instance, there is evidence that these industries include some of the most dynamic activities in developed market economies. Hence, a rise in production in these industries in response to the import demand generated by an expanded transfer of resources to developing countries might well help it to increase the rate at which it absorbed surplus labour for industries in secular decline. 35/

35/ While information on rates of capacity utilization is difficult to obtain, figures are available for registered unemployment in recent years in various industries producing machinery and equipment in the Federal Republic of Germany, France and the United Kingdom of Great Britain and Northern Ireland, and for total employment in sectors with approximately the same coverage. Comparison of these figures with the corresponding national rates of unemployment suggests that, if anything, these industries were among those least affected by the recent cyclical downturn. Data on registered unemployment in different industries are available

100. Different conclusions might be reached in the case of such industries as steel and petrochemicals. In the case of the steel industry, available evidence indicated a marked increase in the amount of excees capacity in recent years. 36/ There is widespread agreement that the low rates of capacity utilization in this industry are partly the consequence of recent changes in economic activity, but that they also reflect the impact of the rapid increase of steel-making capacity in developing countries in the 1970s. 37/ While efforts are now under way to reduce the steel-making capacity of European Community countries, production in the developing world is expected to grow until, by the second half of the 1980s, its share of totld output is about the same as that of the United States, Japan or Western Europe.

(continued)

in Employment and Unemployment 1971-1977 (Statistical Office of the European Communities, 1978), table IV/5. These can be compared with figures for employment at a sectoral level in table III/4 of the same publication. The classification of industrial activities in these two tables is not identical, but does seem sufficiently similar for it to be possible to arrive at approximate figures for rates of unemployment in the following sectors: mechanical engineering, the manufacture of transport equipment and electrical engineering in the Federal Republic of Germany; the construction of machinery and vehicles and the construction of electrical goods in France; and mechanical engineering and electrical engineering in the United Kingdom. These figures can be compared with national rates of unemployment in the same countries (Ibid., table IV/1)

36/ In the original six countries of the European Economic Community, the rate of capacity utilization in the production of raw steel had fallen to 61.5 per cent in 1977 from levels which were rarely below 80 per cent between 1956 and 1974 (and usually more than 85 per cent). In Japan, the rate of capacity utilization was 67.5 per cent in the same year after falling from levels which until 1974 averaged only a little less than those of the original countries of the European Economic Community. The recession was less severe in its effect on the steel industries in the United States of America and the United Kingdom, where rates of capacity utilization fell to low points of 74.5 per cent (in 1975) and 70.6 per cent (in 1977) respectively (see Federal Trade Commission, Staff Report on the United States Steel Industry and its International Rivals: Trends and Factors Determining International Competitiveness, 1977, table 4.21, and OECD, The Iron and Steel Industry in 1977 (1979), tables 4 and 33).

37/ In 1975, developing countries in Latin America and Asia had the capacity for making raw steel of approximately 35 million metric tons. This can be compared with capacity figures of 150 million metric tons for Japan, 190 million metric tons for the nine countries of the European Community, and 142 million metric tons for the United States in the same year. (For the steel-making capacity in 1975 of Japan and the United States, see Federal Trade Commission, op. cit., and for that of the European Economic Community, see OECD, The Iron and Steel Industry in 1975 (1977), table 44. For the steel-making capacity of the developing countries of Latin America and Asia in this year, see Federal Trade Commission, op. cit., table 6A.13.)

Thus it is particularly difficult to forecast the effect of an expanded resource transfer on this sector because of uncertainties over the way in which the resulting demand will be distributed between steel industries in the developed and developing parts of the world. These uncertainties are exacerbated by doubts concerning the extent to which current programmes of rationalization in this sector will reduce steel-making capacity in Western Europe. 38/

101. Similar problems would confront an attempt to estimate the likely effect of an expanded transfer of resources to developing countries on other industries in the developed world, such as petrochemicals, which have been characterized by excess capacity in recent years. 39/ Here too it would be difficult to forecast the geographical distribution of the additional import demand generated by the transfer, especially in the face of the increases in productive capacity in developing countries often anticipated for the 1980s.

102. In conclusion, it cannot be denied that such a transfer might facilitate the shift of such resources to more dynamic sectors. But the discussion in this section indicates the need for caution in the face of arguments that are based on too direct a link between transfers to developing countries and capacity utilization in specific industries in the developed market economies. It should also be recognized that a significant part of the import demand resulting from transfers is likely to be channelled towards other developing countries. This, of course, would be a highly desirable outcome, since it would be associated with a more equitable distribution of the various lines of industrial activity among members of the world economy.

38/ For a recent review of the difficulties confronting the European Economic Community in connexion with achieving the targets of its rationalization plan for the steel industry in the Community, see G. Merritt, "Hard facts of life for Europe", Financial Times, 18 July 1979. These difficulties include a tendency on the part of senior management in the steel industry to produce exaggerated estimates of their own levels of over-capacity.

39/ For example, rates of capacity utilization in the production of ethylene propylene, butadiene and benzene were markedly lower in the European Economic Community in 1975-1976 than in the earlier years of the 1970s, and a similar trend seems to have characterized developments in these industries in the United States and Japan. See OECD, The Petrochemical Industry: Trends in Production and Investment to 1985, tables 1a, 1b, 2a, 2b, 3a, 3b, 4a and 4b. A summary of some of the forecasts for the distribution of world petrochemical production in the 1980s is also to be found in this publication (pp. 12 ff).

ANNEX I

Some recent proposals on an expanded transfer of resources to developing countries

Proposal by:	Prof. Angelos Angelopoulos, Governor of the National Bank of Greece a/	Austria b/	Mr. Claude Cheysson of the EEC Commission c/	Governor of the Bank of Greece d/
Objective	Creation of an adequate system of financing to channel excess savings from developed countries to developing countries to permit substantial and productive investment in the latter, which, in turn, would revive economic activity in the industrialized countries.	Creation of an International Fund for Economic Co-operation and Structural Adjustment in order to marry the needs of developing countries with the utilization of industrial capacities in participating industrialized countries.	Transfer of resoucres to developing countries in order to stimulate effective global aggregate demand and, in particular, investment demand in developing countries.	Creation of an International Loan Insurance Fund to secure and enlarge the flow of funds from the private capital markets to developing countries.
Policy/sector focus	Financing of productive investment expenditures in developing countries which would involve acquisition of capital goods and services from contributor countries.	Funds would be used to finance projects in the fields of industry and infrastructure in developing countries	Energy, mining, food, infrastructure, urban development.	The funds would be used to provide guarantees for financially sound balance of payments and development loans.
Amount	(a) Contributions by all industrialized countries 1. $25 billion per year, which would consist of loans on favourable terms; 2. $20 billion per year in the form of a five-year moratorium on the service of existing debts of developing countries. (b) Contributions by EEC countries. 1. $12 billion per year in the form of loans; 2. $10 billion per year in the form of debt-service moratorium during five years.	$1 billion.	$10 billion per year.	No specific figure. The capital of the Fund would be callable rather than paid out.
Time horizon	Five years for the first scheme. No specific time horizon for the EEC scheme.	No specific time period.	Three to five years.	No specific time horizon.

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Proposal by:	Prof. Angelos Angelopoulos, Governor of the National Bank of Greece a/	Austria b/	Mr. Claude Cheysson of the EEC Commission c/	Governor of the Bank of Greece d/
Sources of financing	Funds would come from industrialized countries.	The Fund would consist of capital paid in, in accordance with national quotas and borrowed capital raised on capital markets.	OPEC surplus liquidity. Funds raised in capital surplus countries.	Alternative A: Guarantors would be highly industrialized and surplus OPEC countries. The World Bank could be authorized to participate as a partial guarantor. The Fund would be income-generating and, therefore, after a few years of operations, sufficient reserves would have been accumulated to minimize contributions from guarantors. Alternative B: Guarantors would be private international financial institutions. The IBRD could be authorized to participate as a partial guarantor.
Terms of financing	Loans would be made on favourable terms: repayment would be spread over a 15-year period; no interest would be payable during the first five years; for the remaining 10 years, interest would be payable at 5 per cent per annum.			Guarantees would be restricted to financially sound balance of payments and development loans. (a) Guarantees could be a fixed percentage of loans. (b) Alternatively, the percentage of coverage up to a maximum ceiling (e g. 70 per cent) could be negotiated between the lending institution and the Fund. (c) Exceptionally, loans to 100 per cent.
Administration of resources	Financing would be made available through an international agency probably the World Bank.		The Bretton Woods institutions are envisaged to play a major role for channelling surplus liquidity.	The proposed Fund might be an independent agency, though closely co-operating with an existing international organization (that is, the World Bank or the Bank for International Settlements).
Beneficiary countries	Developing countries in general.	Developing countries in general.	Developing countries in general.	All IBRD developing member countries.

Proposal by:	Iraq e/	Senator Javits et al. f/	Mexico g/	Mitsubishi Research Institute h/
Objective	Establishment of an international fund to compensate developing countries for imported inflation.	Pooling of capital from OPEC countries for productive investment in the developing countries.	Recycling of funds from surplus countries to provide long-term finance to deficit developing countries, in order to allow the latter to purchase capital goods from developed or other developing countries.	Financing of "super projects", many of which would develop new sources of energy and increase food production in developing countries. The purpose is two-fold: on the one hand, increase in income and employment in developing countries, on the other hand, increase in demand for (capital) goods from developed countries.
Policy/sector focus	Compensation for the rise in prices of goods imported by developing countries. The date of establishment of the Fund would be the base year for calculating the imported inflation rates.		Long-term loans would be made to any project, sector programme or private firm in developing countries. These loans would be used to purchase capital goods from other developing countries or from developed countries whose Governments had either purchased or guaranteed part of the new Fund's bond issue.	Mainly energy and food production sectors.
Amount	The respective annual contributions of the industrial and OPEC countries would be determined according to the calculated inflation rates of the prices of developing countries' imports from the industrial countries and of the price of their oil imports from OPEC member countries.	$50-100 billion	A fund of $15 billion is envisaged.	$13 billion a year. With multiplier effects, annual expenditure would be about $35 billion. This would amount to over $500 billion at the end of the scheme.
Time horizon	Not less than 10 years. The Fund's initial term may be extended in light of the then prevailing circumstances and subject to the agreement of all parties concerned.	No time period is fixed.	Funds might be disbursed over a period of three to five years.	Until the end of the century.

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Proposal by:	Iraq e/	Senator Javits et al. f/	Mexico g/	Mitsubishi Research Institute h/
Sources of financing	The Fund's resources should be provided totally by the industrialized countries, where inflation is generated, and then exported in the form of higher prices of goods and services to the developing countries. However, OPEC member countries would also join the Fund by contributing annually amounts equal to any new price increases in crude oil imported by developing countries from OPEC countries.	Surplus OPEC funds.	The proposed new Fund would issue bonds with a 15-year maturity and denominated in SDRs on international capital markets. Potential investors: governments, and central banks of surplus countries, commercial banks. Institutional investors (pension funds and insurance companies). Guarantees would be offered by developed (and perhaps some developing) countries.	The $13 billion a year would be contributed as official development assistance by the industrial and OPEC countries: $5 billion collectively by the United States of America, the Federal Republic of Germany and Japan; $5 billion by OPEC; $3 billion by other industrial countries.
Terms of financing	Funds would be allocated in the form of grants rather than of soft loans, at least during the initial term of the Fund.		Long-term loans with a maturity of 15 years or so at non-concessional terms.	
Administration of resources	No particular mechanism is proposed.		The Fund would be administered either by an existing institution, such as the World Bank, or possibly by some new institution.	A new organization would need to be set up to administer these funds.
Beneficiary countries	Developing countries in general.	All developing countries.	Principally the benefits are likely to accrue to middle-income countries.	The large-scale projects are expected to be multinational in scope, benefiting several countries in some instances.

Proposal by:	OECD/DAC i/	Sweden j/	UNDP/UNCTAD k/	Venezuela l/
Objective	Expansion in the co-financing operations of the multilateral development lending institutions with private banks.	In order to manage better the evolving interdependence, implementation of a massive transfer of resources to developing countries. In the short term, such massive increases in transfers would stimulate employment and output in developed countries as well. In the longer run, the transfers would facilitate structural transformation of the world economy and, in particular, of developing countries, consistent with the internationally agreed development priorities.	Establishment of a new medium-term facility within the framework of IMF to permit developing countries suffering from structural balance-of-payments deficits to adjust their balance of payments gradually over a period of five to 10 years.	Excess savings of OECD and OPEC countries would be lent to developing countries on a long-term basis.
Policy/sector focus	Emphasis on projects in such sectors as energy, food production, raw materials and processing and related infrastructure.	Countries or sectors with high absorptive capacity with some emphasis on energy and raw materials sector.	Medium-term balance-of-payments adjustment.	In the short run, funds would be targeted towards projects which might be expected to require imports from industries in OECD countries which were suffering from excess capacity during a period long enough to permit structural adjustments to take place in OECD countries. In the medium run, funds would also be targeted, subject to the agreement of developing countries, towards sectors such as energy and minerals and their related inputs and infrastructure, including basic needs.
Amount	No specific figures are mentioned.		A sum of SDR 10 billion would permit non-oil developing countries to draw their full entitlement, which would be equivalent to 100 per cent of their quota.	A flow of $16 to 20 billion a year.
Time horizon	No time horizon is fixed.		Undetermined.	Five to ten years.

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Proposal by:	OECD/DAC i/	Sweden j/	UNDP/UNCTAD k/	Venezuela l/
Sources of financing	The main source of funds would come from private international banks, assisted by some increase in lending by the World Bank within its co-financing operations.	Resources would be raised in a variety of ways, including at market terms, though increase in official development assistance target would remain a key objective.	Funds for the new facility might come from new capital subscriptions by IMF members, or bonds issued by the Fund in international capital markets. The interest rate subsidy for poorer borrowers could be financed either from contributions to a subsidy account made by high-income members of the Fund, or from the profits realized on further gold sales by the Fund.	1. 75-80 per cent of the total amount of funds would be raised in international capital markets by selling triple-A long-term (12-20 years) "OPEC Development Bonds"; (a) OPEC countries themselves would agree to purchase 20-25 per cent of the bond issue and would act as a "first guarantor" of the bond issue; (b) The World Bank and its affiliated institutions might act as a "second guarantor" to the OPEC countries. 2. The remaining 20-25 per cent of total amount of funds would be subscribed by developed countries either out of their existing aid budgets or out of increased allocations.
Terms of financing	Loans would be made on commercial terms to projects in developing countries which promised an acceptable rate of return. However, the main beneficiaries would tend to be middle-income countries, since loans would be made on non-concessional terms.		Non-oil developing countries would be allowed to draw up to 100 per cent of their quota. Purchases under the new facility would normally be made over a period of three to four years. Repurchases would take place over a period of five to 10 years.	20-25 per cent of the total would be lent to least developed countries, mainly on concessional terms. The rest would be lent at commercial rates on a long-term basis (12-20 years) to other developing countries.
Administration of resources	The co-financing operations are jointly administered by private banks and the World Bank. However, the World Bank would have the main responsibility in assessing projects and in administrative work.	No particular mechanism is proposed.	The new facility would be established within the framework of IMF.	The funds would be administered by the World Bank and the International Finance Corporation and/or the regional development banks, and would be disbursed by them through a "Special Window".
Beneficiary countries	Any developing country which could present a project with an acceptable rate of return. However, the main beneficiaries would tend to be middle-income countries, since loans would be made on non-concessional terms.	Initially countries (or sectors) with high absorptive capacity. The provision of additional official development assistance to poorer countries to strengthen their absorptive capacity.	Developing countries suffering from structural balance-of-payments deficits.	20-25 per cent of the total would be channelled to least developed countries. The rest would go to all other developing countries.

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(Foot-notes to Annex I)

Sources:

a/ Professor Angelos Angelopoulos: "The investment crisis and the approach of the post-Kenyesian era", Annals of Public and Co-operative Economy, January-March 1979.

b/ Austria: Based on information contained in a report of discussions at the Special Meeting of the Like-minded Countries on Transfer of Resources, 8-9 November 1978, Ministry for Foreign Affairs, Office for International Co-operation, Sweden.

c/ Mr. Claude Cheysson of the EEC Commission: (same as Austria).

d/ Mr. Xenophon Zolotas, Governor of the Bank of Greece: "An international loan insurance scheme", Bank of Greece, Papers and Lectures No. 39, Athens, 1978.

e/ Iraq: "Iraqi proposal for the creation of a long-term international fund to assist developing countries against inflation", working paper presented by the Iraqi delegation to the 54th meeting of the OPEC Conference, Geneva, 26 June 1979.

f/ Resolution S. RES. 441, 95th Congress, second session, Senate of the United States of America.

g/ Mexico: Proposal for a long-term facility for financing purchases of capital goods by developing countries put forward by the Mexican Government at the meeting of the Development Committee, which took place at Mexico City in April 1978.

h/ Mitsubishi Research Institute: A proposition for the "Global Infrastructure Fund", presented by Masaki Nakajima, President, Mitsubishi Research Institute, Tokyo, August 1978.

i/ OECD/DAC: "A proposal for stepped-up co-financing for investment in developing countries", OECD, Paris, May 1979.

j/ Sweden: "Massive transfer of resources: background and problems for further analytical work", informal working document circulated by the Permanent Mission of Sweden to the United Nations, 3 May 1978.

k/ UNDP/UNCTAD: Proposal put forward in UNDP/UNCTAD Project INT/75/015, "The balance-of-payments adjustment process in developing countries: report to the Group of Twenty-Four", 2 January 1979.

l/ Venezuela: Proposal worked out in the course of 1977 and outlined by President Perez at a press conference after the meeting of OPEC Ministers at Caracas in December 1977.

ANNEX II

Mexican proposal for a long-term facility for financing purchases of capital goods by developing countries*

Amount

1. We would propose the creation of a long-term fund with an amount of $15 billion, perhaps divided into three borrowing operations involving three tranches of $5 billion each, which can be phased over time.

Administration of the fund

2. The fund would be managed by the World Bank.

Main characteristics

3. The main characteristics would include the following:

(a) The facility would issue debt instruments (bonds, notes or certificates) to the lenders for a 15-year term with a rate of interest. The notes would be denominated in SDRs;

(b) These loans would be completely separate from normal borrowing operations by the World Bank;

(c) A secondary market would be developed to give liquidity to these instruments;

(d) Loans could be guaranteed by the borrowing countries on the basis of the value of the purchased capital goods themselves, and they could be further protected by the technical expertise of the World Bank staff in approving only profitable loans and by the backing of any industrial countries prepared to offer it, as explained below.

Sources of funds

4. The sources of funds would include the following:

(a) Since loans would be an attractive investment, they could come basically from Governments of countries with strong balance-of-payments and financial positions. Surplus countries could find this investment outlet attractive, since it provides market rates, good guarantees of liquidity, and protection against exchange risks.

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* Text submitted by Mexico to the Joint Ministerial Committee of the Board of Governors of the Bank and the Fund on the Transfer of Real Resources to the Developing Countries (known as the Development Committee) in April 1978.

(b) Governments that may not be in a position to contribute direct loans might guarantee the loans granted by the facility. Purchases of capital goods from developed countries financed by this facility would be limited to countries granting loans or guarantees.

(c) Long-term notes may also be promoted with the institutional investors, a feature which would guarantee additionality of resources, since the institutional investment market has hardly been tapped by developing countries.

Use of the funds

5. The use of the funds would include:

(a) Resources would be channelled towards financing the acquisition of capital goods from contributing industrial countries and from developing countries; these capital goods could be purchased both in connexion with specific projects and with sector programmes;

(b) Since a possible initial bottleneck might be an insufficient capacity to generate projects by the public sectors, this financing would be also extended to national private firms operating in developing countries, perhaps with the approval or guarantee of the Government or a public financial institution.

Beneficiaries

6. The countries that would have access to this fund would all be developing countries. These countries have important long-term capital needs and would increase demand, thereby contributing to the stimulation of the capital goods sectors of industrial countries.

7. It is important to note that the aggregate demand for capital goods by the developing countries has reached very significant levels. Demand from developing countries substantially contributed to moderate the recession of 1974-1975, and it could make a contribution to the recovery of the world economy.

8. This facility will attempt to close the gap that looms heavily over the world economy, since it will be used to:

(a) Provide an adequate stimulus to the capital-goods-producing sectors of industrialized countries that have suffered from inadequate demand; industrial countries would be able to reallocate resources from sectors in which they have lost comparative advantage to capital goods sectors where they still have it;

(b) Provide the necessary long-term resources for developing countries to enable them to finance their unmet demands for capital goods required for development. A sustainable pattern of finance for developing countries would emerge.

(c) Provide an additional investment outlet for surplus countries and help to introduce a better structure in the assets and liabilities of the financial markets.

9. Above all, we should like to emphasize that this is a truly co-operative project which does not involve outright grants. It is a proposal that will benefit all parties concerned. For the industrial countries, it means generation of employment and stimulus for a lagging sector; for the financial markets and for surplus countries, an attrative investment outlet; and for many developing countries, the restoration of sound growth and financing patterns.
