E/1982/15

COMMITTEE FOR DEVELOPMENT PLANNING

REPORT ON THE EIGHTEENTH SESSION

(19-28 April 1982)

ECONOMIC AND SOCIAL COUNCIL

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NOTE

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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INTRODUCTION

1. The Committee for Development Planning held its eighteenth session at United Nations Headquarters in New York from 19 to 28 April 1982. Eighteen members of the Committee attended the session: Ismail-Sabri ABDALLA; Khatijah AHMAD; Maria AUGUSZTINOVICS; H. C. BOS; Robert CASSEN; William G. DEMAS; José ENCARNACION, Jr.; Gerhard FELS; Celso FURTADO; Shinichi ICHIMURA; V. N. KIRICHENKO; John P. LEWIS; LI Zong; Gabriel MIGNOT; Goran OHLIN; Jozef PAJESTKA; I. G. PATEL; and Germánico SALGADO. Six members were unable to attend: Abdlatif Y. AL-HAMAD; R. K. A. GARDINER; J. M. MWANZA; Joseph Elenga NGAPORO; G. O. NWANKWO; and Leopoldo SOLIS. 1/

2. The Committee's deliberations were facilitated by the report of its Working Group on International Monetary and Financial Issues. The Working Group, which met in New York from 5 to 7 October 1981, consisted of Khatijah Ahmad, H. C. Bos, G. O. Nwankwo (Rapporteur), Goran Ohlin (Vice-Chairman), Jozef Pajestka, I. G. Patel, Germánico Salgado (Chairman), and the following co-opted members: Dragoslav Avramovic, G. Fred Bergsten, Ariel Buira and Sidney Dell.

3. The Committee and United Nations staff joined in tribute to the memory of Justinian Rweyemamu, a former Committee member and Secretariat colleague.

4. On joining the staff of the United Nations Children's Fund, effective 1 January 1981, Richard Jolly relinquished his membership of the Committee. The Committee appreciated the contribution made by Mr. Jolly to its work during the period he served as member and, particularly, the competence with which he performed the duties of rapporteur during the period 1979-1981. The Committee also welcomed Robert Cassen as a new member.

5. The Committee elected Goran Ohlin as the Rapporteur for the remainder of the current term. The officers elected at the seventeenth session for the term ending 31 December 1983 are now:

Chairman:	William G. Demas
Vice-Chairman:	Maria Augusztinovics
Rapporteur:	Goran Ohlin

1/ Substantive services for the session were provided by the Department of International Economic and Social Affairs of the United Nations Secretariat. The Committee was also assisted by representatives of the Department of Technical Co-operation for Development, the United Nations Centre on Transnational Corporations, the Centre for Science and Technology for Development, the Economic Commission for Africa, the Economic Commission for Europe, the Economic Commission for Latin America, the Economic Commission for West Asia, the United Nations Conference on Trade and Development, the United Nations Industrial Development Organization, the United Nations Children's Fund, the United Nations Development Programme, the World Food Council, the World Food Programme, the Food and Agriculture Organization of the United Nations, the International Labour Organisation, the International Monetary Fund, the World Bank and the Commonwealth Secretariat. The agenda adopted by the Committee and a list of background documents for the session are presented in the annex.

6. The Director-General for Development and International Economic Co-operation made a statement in which he drew attention to the adverse effects of the current world recession, particularly the trend toward inward-looking policies, already evident in the areas of money, trade and aid, and the dangers of a general retrenchment in international co-operation. He emphasized the necessity of a global approach. Though the industrialized countries could contribute significantly to world economic recovery by successful efforts to restore their own economies, policies undertaken by them could not be a matter of indifference for their economic partners in the world. Thus, the problems posed by high interest rates in Western countries was of global concern. It was equally unacceptable to have to wait until the developed market economies had fully recovered before greater co-operation could be possible in the urgent fields of trade, financing of payments deficits, development aid and food. He stressed that the viability of the multilateral system, which has grown and evolved over more than three decades, critically depended on the continuing collective commitment by all nations, most especially the largest among them - commitment to be reaffirmed in this period of adversity, not merely by formal declaration but by concrete action.

7. The Assistant Secretary-General for Development Research and Policy Analysis observed that the deterioration in the world economy, of which the Committee had warned at its last session, had unfortunately been confirmed. He referred to the World Economic Survey 1981-1982, which explained the intensity of the present recession in terms of the superimposition of a cyclical downswing, accompanied by restrictive anti-inflationary policies, on a world economy which had already weakened. He feared that if no shift took place in the present policy mix of leading industrial countries, the present recession could deepen rather than give way to recovery. Although significant structural adjustment had occurred, the payments situation in 1982 for the energy-importing developing countries was unlikely to be any better than in 1981. There was thus a clear need for increased external financing on appropriate terms to allow for a development-oriented process of adjustment and to counter the cyclical downswing of the current recession. Actions to reduce the instability of commodity prices, to dispel uncertainties about the international trading system, and to improve consultations on and harmonization of macro-economic policies among larger industrial countries, were additional international elements in bringing about the restoration of sustained and adequate world economic growth.

8. In accordance with Economic and Social Council resolution 1981/64, the Committee focuses this year's report on critical issues of international monetary and financial co-operation. The Committee addresses these issues in light of the present crisis in the world economy and the urgent need for a programme of world recovery. The main findings and recommendations of the Committee are presented in chapter I.A. of the report. The Council also requested the Committee (by resolution 1981/47 and decision 1982/106 to consider the eligibility of six countries to the category of the least developed among the developing countries, and the Committee's conclusions on this matter are presented in chapter II. Finally, the Committee submits to the Council its proposed arrangements for future work, in chapter III.

I. WORLD ECONOMIC RECOVERY AND INTERNATIONAL MONETARY AND FINANCIAL CO-OPERATION

A. Main findings and recommendations

9. Convinced that present trends in the world economy point to the danger of further contraction and stagnation, entailing extensive human suffering in many of the poorest developing countries as well as risks of widespread political instability, the Committee recommends urgent consideration by Governments of a programme of world recovery.

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10. The Committee notes with grave concern the continuing deterioration in the international economic situation. The findings of the World Economic Survey, 1981-1982 show recession deepening and affecting all groups of countries. In 1981, the slow-down in over-all economic growth was more pervasive than at any previous time in the period since the Second World War. World trade remained stagnant for the second year in a row.

11. The process of world development came to a virtual halt. The per capita output of the developing world as a whole fell for the first time since the great wave of decolonization in which many of the developing countries attained national independence. Acute foreign exchange shortage crippled production and the provision of vital services to the point where survival replaced development as the first priority in the poorest developing countries.

12. The interdependence of the world economy is currently making for a downward spiral which is particularly ominous against the background of mounting international tension. The Committee noted with concern the rising trend of military expenditure, and the view expressed in some quarters that such spending would help to stimulate economic recovery. This view is misguided. High military expenditure is part of the problem, not part of the solution.

13. In such circumstances the objectives of the International Development Strategy for the present decade seem to be vitiated from the start.

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14. The deterioration in the international economic situation is in part due to policies pursued in countries with a preponderant weight in the world economy, seeking to solve their problems on a national basis. Attempts to revive the developed market economies by solving their domestic problems of stagflation first and postponing attention to the needs of the international economy have proved self-defeating. The interdependence of the world economy is today such that only international co-operation can restore growth with price stability.

15. To control inflation is an objective of the highest priority for many Governments. But it cannot be the sole objective of public policy. It is clear that each country must and will choose its own approach. But that choice must also take into consideration the impact on the world economy. The policy mix of any country is a delicate matter but the Committee finds the present high rates of interest a serious obstacle to international recovery.

16. There is an alarming weakening of the spirit of international co-operation to seek constructive answers to present problems. This is particularly reflected in the rising tide of protectionist sentiment and the hardening attitude towards aid policies. Already there has been a disturbing fall-off in the proportion of development assistance flowing through multilateral channels. The resources of the United Nations Development Programme (UNDP), in real terms, did not grow at all in 1980 and in 1981 they declined. This fall-off is common to several donors. The Committee was particularly disturbed by the reduction of previously pledged contributions to the International Development Association (IDA). In the view of the Committee the restoration of IDA to the levels previously agreed on and its subsequent enlargement is an immediate requirement.

17. The recently concluded Multi-Fibre Arrangement (MFA) limited market access to developing country producers very sharply and exemplifies the nature of present-day protectionism. Developing countries are exposed to protectionist policies not only in trade but also in aid where tying practices are becoming more onerous. Present protectionist pressures have caused increasingly serious disputes among large industrial countries. A protectionist surge would not only transmit contraction and unemployment throughout the world economy but also further obstruct the growth of developing countries' capacity to service their external debts.

18. National pressures to prevent multilateral institutions from lending to public-sector enterprises or to countries which favour a particular public private mix are not in order. If influential members of the World Bank were to attempt to use the Bank for imposing views of their own, the World Bank's usefulness and stature as a leading international organization could only suffer. Such pressure may even run counter to the institutions' Articles of Agreement, which commonly enjoin them from imposing particular social, economic or political ideologies on their members.

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19. International co-operation to find the way out of the present trend towards an ever-worsening contraction of the world economy must in the first place go through an imaginative use of the international financial institutions.

20. The contribution of the World Bank and of the regional development banks to the process of world adjustment is particularly great in supporting productive investments for development and structural change, and the proposals that have been made to enlarge their lending capacity in ways that do not impose pressures on government budgets deserve greater attention than they have so far received. The World Bank could raise the ratio of loans to capital, increase the subscribed stock without paid-in capital contributions, create a facility with a voluntarily subscribed equity base, and accept term deposits from capital-surplus countries.

21. In the international monetary system, the growth of reserves has been erratic and its distribution uneven. An immediate step should, in the opinion of the Committee, be the resumption in the creation of Special Drawing Rights (SDR). No convincing case can be made that SDR allocations would be inflationary, especially in view of the high rate of interest associated with their use, but they would help sustain world trade and promote adjustment.

22. The conditionality of the support extended by the International Monetary Fund (IMF) has long engendered controversy. In the years since 1979 the Fund revised its approaches to conditionality and sought to pay greater attention to

measuresencouraging appropriate investments, sometimes in collaboration with the World Bank. However, the IMF seems now to be reverting to a degree of conditionality that is threatening to put a halt to many of the support programmes, since members are unable to meet the rigid performance criteria. The Committee recommends that:

(a) A greater portion of Fund resources should be made available at lower conditionality;

(b) Member Governments should be more closely involved and listened to in the formulation of adjustment programmes, that reviews should be less frequent and look more toward progress of the programme as a whole instead of regarding failure on single points as reasons for suspension;

(c) Greater attention should be paid to sectoral requirements and investment programmes for expansionary adjustment.

23. The Committee also recommends consideration, in exceptional cases or protracted disputes, of some procedure by which a third party or parties might be associated with the negotiations and assist in reaching agreement. In the longer run, however, there is no substitute for greater confidence of members in the Fund and its staff.

24. Contentions over conditionality would also be eased by the enlargement of the resources available to the Fund. The Eighth Quota Review will be of crucial importance, and in the view of the Committee the proposals for enabling the Fund to borrow in financial markets deserve speedy attention.

25. The Committee reviewed development assistance policies and draws attention to the inadequacy of aid levels, the deficiency of programme lending in particular, the need for further efforts towards aid co-ordination and untying, the unsatisfactory distribution of assistance, and the desirability of maintaining food aid as a means for the transfer of resources and not solely as an emergency measure.

26. Domestic economic policies of developing countries should be reviewed to ensure that they promote equitable development and do not generate untenable budget deficits, economic waste and growing inequality. The developing countries should also review their trade policies to see whether trade restrictions could be further reduced, in their own interest as well as that of their trading partners.

27. In view of the recession in many industrialized countries, particular importance attaches to measures of monetary and financial co-operation among developing countries. The Committee commends a number of such specific measures to the attention of Governments.

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28. The measures necessary for world recovery would be in the interests of all countries, rich and poor. They would have to involve a greatly increased flow of international finance. To a large extent such flows would not have to burden government budgets in industrialized countries, but to the extent that they would, the burden would be amply warranted if it arrests the contraction in the world economy.

29. Immediate steps of international monetary and financial co-operation should include the lowering of the high interest rates today paralysing investment, the restoration of IDA, the resumption of SDR creation and the enlargement of resources available to IMF, and increases in concessional development assistance and improvement of its quality. In the longer run, further improvements will be called for if the international monetary and financial system is to function in an equitable and efficient manner.

30. The contraction of the world economy is a threat not only to world prosperity but to world security, and the arms race enhances the threat to both. A new conception of international security, based on the shared interests of all nations in survival and world development, must be insistently proclaimed.

B. The present international economic situation

31. In 1981 the recession in the world economy deepened and spread to all groups of countries. The slow-down in over-all economic growth was more pervasive than at any previous time since the Second World War (table 1). World trade remained stagnant for the second year in a row. In the industrialized countries of the Organisation for Economic Co-operation and Development (OECD), unemployment continued to rise and reached an average of nearly 8 per cent of the labour force. In the centrally planned economies also there was a further slow-down in economic growth.

Table 1. World production: annual rate of growth in gross domestic product

(Percentage)

	1971-1980	1980	1981 a/
World	4.1	2.1	1.2
Developed market economies	3.4	1.5	1.2
Centrally planned economies b/	5.4	3.5	1.9
Developing countries, of which:			
Capital surplus countries	5.6	2.9	0.6
Deficit countries	4.8	-7.4	-10.1
Other energy exporters	6.0	6.7	5.4
Energy importers	5.6	4.1	1.4

Source: World Economic Survey, 1981-1982 (United Nations publication, to be issued).

a/ Preliminary estimates.

b/ Net material product.

32. The process of world development came to a virtual halt. The per capita output of the developing world as a whole fell for the first time since the great wave of decolonization in which many of the developing countries attained national independence. Many countries managed to maintain growth momentum, and in Asia especially there was a significant improvement in food production. But in a growing number of countries, especially the poorest ones, the situation deteriorated badly. Acute foreign exchange shortage crippled production and the provision of vital services to the point where survival replaced development as the first priority.

33. The increae in military budgets and intensification of the arms race is causing new and heavy economic burdens in both developed and developing countries.

34. In such circumstances international development planning is very difficult, and the objectives of the International Development Strategy for the Third United Nations Development Decade seem to be vitiated from the start.

35. In 1982, one major change in the world economy will result from the sharp decline in oil prices, which is at this time estimated to reduce the surplus on current account of oil-exporting countries from $66 billion in 1981 to only $12 billion. The $3 billion deficit of developed market economies in 1981 is expected to turn into a surplus of $35 billion in 1982. Non-oil importing developing countries, however, are expected to remain with an essentially unchanged deficit of the magnitude of $75 billion. However, there is little prospect of any speedy improvement in production and trade, for the deterioration in the international economic situation has in part been due to policies pursued in countries with a preponderant weight in the world economy, as they have sought to solve their problems on a national basis through drastic demand restriction and protectionism, ignoring the pervasive interdependence of the world economy.

36. The United States of America, Japan and the European Community are not only linked together by flows of trade and finance of enormous magnitude, but each of them depends for its exports of manufactures on the developing countries, which absorb between one third and one half of those exports. The centrally planned economies are linked to the developed market economies, and their trade with the latter as well as with developing countries has been increasing.

37. This interdependence of the world economy is currently making for a downward spiral which is particularly ominous against the background of mounting international tension. But global interdependence can be turned around and made to serve the recovery of the world economy, in which all nations have a stake. In the paragraphs below, the Committee analyses the present crisis and indicates some of the elements it considers essential for a programme of world recovery.

1. The vicious circle of international contraction

38. The severity of the present recession must be greatly attributed to the turmoil of the international economy in the 1970s and the deep uncertainties which resulted from accelerated inflation and the volatility of exchange rates and prices of oil and other resources. The severity of the second oil price shock and high interest rates can be said to have superimposed an additional structural adjustment problem on the strains of a regular cyclical down-turn. Oil prices are now coming down, although the decline is probably only temporary. It is too early to assess the implications of this important change, but it seems fair to say that the abruptness of the swings has been unfortunate.

39. This is no less true of the situation in other commodity markets where prices have now reached very low levels, which impose extraordinary hardships on countries dependent on commodity exports for their revenues. The instability of international commodity markets has long been recognized as one of the weakest links of the world economy, and the failure to meet this problem constructively is demonstrated today when the benefits that consuming countries derive from the low prices of raw materials have to be weighed against the consequence of the contraction of their markets in developing countries. The Committee regrets the lack of progress in negotiations about agreements to stabilize commodity prices.

40. The weakening demand for raw materials is one of the principal channels for the transmission of recession from developed market economies to the developing countries. It is not the only one. An increasing number of developing countries have become important providers of manufactures in the world economy and suffer today not only from the contraction of demand in industrialized countries but from a variety of protectionist measures imposed on them. The recently concluded MFA agreement limited market access to developing country producers very sharply and exemplifies the nature of present day protectionism. Developing countries are exposed to protectionist policies not only in trade but also in aid where tying practices are becoming more onerous. Present protectionist pressures have caused increasingly serious disputes among large industrial countries. Thus, a substantial share of the exports of Japan is already subject to quantitative restrictions of various kinds. It is important to bear in mind that a protectionist surge would not only transmit contraction and unemployment throughout the world economy but also further obstruct the growth of developing countries' capacity to service their external debts.

41. At this time, developing countries seem to be sucked into the contraction in developed countries. However, in the previous recession in the mid-1970s, one of the most interesting features was that the growth momentum of the developing countries was maintained. They were able to "delink" from the recession in industrialized countries, and in so doing they were also able to contribute to world demand and mitigate the down-turn. This was widely noted, and it is natural to ask why it is not happening today.

42. A principal answer is that at the time there was much greater provision of finance on suitable terms than today. After the first oil price increase, measures were taken to enhance the flow of international finance to those most seriously affected and concessional development assistance flows were raised. The recycling through private banking channels, via the Euro-credit and other off-shore markets, proved more efficient than many expected. All this helped many of the oil-importing developing countries - and developed ones too - to meet the sudden new demands that were superimposed on their accustomed import bill.

43. The response to the second surge in energy prices was very different. Although the volume of financing required was much greater this time, the flow of official finance was not adequately enlarged, and the large debts already incurred became a source of considerable apprehension to both lenders and borrowers when interest rates rose to unprecedented levels, which made debt servicing a consuming preoccupation in all deficit countries and threatened to halt investment projects everywhere, since the cost of capital seemed prohibitive.

44. The steep rise in international interest rates was the result of attempts of monetary authorities in the United States and other countries to bring inflation under control in the face of large budget deficits and widespread expectations of

continued inflation. Its impact throughout the world was enhanced by the high degree of integration of present-day financial markets.

45. To control inflation is an objective of the highest priority for many Governments. But it cannot be the sole objective of public policy, and it is evident that anti-inflationary policies relying essentially on monetary restraint take a high toll in terms of social cost and may jeopardize the social consensus on which an effective response to inflation must be based. It is clear that each country must and will choose its own approach. But that choice must also take into consideration the impact on the world economy. No country is today big enough to ignore the repercussions of its own actions on others. The bigger it is, the bigger those effects are likely to be.

46. The roots of inflation have been and remain the subject of intense debate. At a time when unemployment is rising and national income is contracting, inflation cannot be attributed to excess demand. Experience in many countries also suggests that attempts to check cost inflation by reliance on demand restriction will be largely ineffectual, as demonstrated by the persistence of stagflationary conditions. Although a reduction in rates of inflation was attained in 1981, it was at a very heavy social cost.

47. The policy mix of any country is a delicate matter, but the Committee finds the present high rates of interest a serious obstacle to international recovery. It would be desirable for greater emphasis to be laid on policies that would check the cost/price spiral with less disruption to the world economy. The Committee believes that particular attention should be given to the possibility of incomes policies based on a broad accord among major interest groups and aiming at an equitable allocation of the restraint in real incomes which may be necessary.

48. Almost every country in the world is currently suffering from severe budgetary crises arising from stagnation of the economy and the flow of revenues on which long-term planning was premised. Similarly, the rising tide of protectionist sentiment, the hardening attitude towards aid policies and international co-operation in general are the responses to a contraction of the economy. International co-operation tends in such circumstances to be seen as a burden and a constraint. Some foreign imports will be seen as taking jobs away, and government loans and grants will appear to strain an already alarming budget. But international integration is today so advanced that even the largest economies depend greatly on exports to the rest of the world, and the present recession is heavily accentuated by the stagnation of world trade. Even today when many Governments hesitate to stimulate domestic demand for fear of fuelling inflation and raising interest rates, they rightly welcome an increase in the demand for their exports. Reviving the flow of international trade among all regions through appropriate measures of international co-operation is, therefore, not something to be postponed until domestic economic conditions improve. It is, on the contrary, a prerequisite for the restoration of growth and investment without unhealthy inflation.

49. The Committee noted with concern the rising trend of military expenditure, and the view expressed in some quarters that such spending would help to stimulate economic recovery. This view is misguided. Military expenditures take resources away from other objectives, including measures of international co-operation which are essential for national security. At any given level of public expenditure, the higher the amount spent on weapons, the lower the amount of employment created. And arms production, in competing for skilled labour and other resources scarce

even during recession, may possibly be more inflationary than other government spending. In developing countries the harmful consequences of arms spending are particularly marked. High military expenditure, in other words, is part of the problem, not part of the solution. The relationship between disarmament and development calls for urgent measures of real disarmament, led by major Powers, to promote peace and security, social progress and development.

2. National and international policies of adjustment

50. As a result of the unprecedented disruptions in balances of payment in the past decade, adjustment has become a central concept in the analysis of the problems of the world economy. However, there are important differences among the possible approaches to adjustment.

51. At one end of the spectrum there is the notion that a country with a serious deficit in its balance of payments should adjust by drastic curtailment of aggregate demand. At the other end of the spectrum, there is a notion that the deficit should be fully financed.

52. The Committee supports a broad and global view of the meaning of adjustment. As recently expressed by Mr. de Larosiere, Managing Director of IMF, adjustment "means restoring the benefits of growth to the world economy, putting an end to the present unique period of 'stagflation', where persistent inflation coexists with a prolonged recession and growing unemployment". 1/ The Committee fully supports this view, and the thrust of its recommendations is that the policies of the international community and the relations of IMF and other international institutions with their member States should be guided by it.

53. It is clear, however, that the first and narrower conception of adjustment is often in direct conflict with the needs of global recovery. If a balance-of-payments deficit arises from domestic policies or events which sharply inflate demand, correction of this is, of course, the appropriate adjustment policy. But if the deficits arise from outside causes beyond the control of a country, such as persistent surpluses or recessions in other countries, adjustment by demand restriction will exercise a deflationary influence on the world economy.

54. When imbalances in the flow of international payments arise from great changes in factor costs, as was the case when energy costs went up steeply in the past decade, there is a need for adjustment to the new factor price configuration, and this is at the heart of the present situation. Such structural adaptation calls for a combination of demand restraint and new investment over a fairly long period of time, and incomes policy must play an important role in this. Adjustment of this type is called for in all countries, regardless of their stage of development. It is greatly facilitated by an increase in the rate of domestic saving, as demonstrated in the successful Japanese response to the rising cost of energy in the 1970s, but international financing is also warranted for this type of adjustment.

55. All this is widely recognized, and in the 1970s many constructive steps were taken to enable international financial institutions to supply external finance on appropriate terms, including subsidies for some of the countries most affected, in

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1/ See IMF Survey, vol. 11, No. 7 (5 April 1982), p. 97.

order to avert a wave of deflationary adjustment. Above all, extensive recycling of the surpluses of oil exporting countries through the international banking system made it possible to maintain the momentum of development and prevent the world recession from deepening. The Committee now finds it necessary to recall these basic aspects of the international financial situation, because the climate is now hardening. The surpluses of the oil-exporting countries are also waning, at least for the time being, and it is difficult to predict how the big swing in world payment flows will affect the recycling process. Given present policies, there is very real danger that adjustment is coming to mean adjustment down to depression levels of unemployment and underutilized capacity and to further stagnation in world development.

56. As far as international co-operation is concerned, the way out of the present trend towards an ever-worsening contraction of the world economy must in the first place go through an imaginative use of the international financial institutions.

C. Immediate and long-term needs in international monetary and financial co-operation

1. The multilateral financial institutions

57. The monetary chaos of the period after the First World War and the breakdown of the international system of trade and finance contributed to the conditions out of which the Second World War flowed, and it was in recognition of this that an attempt was made to create a system for international economic co-operation that would be more conducive to general prosperity. In the present period when world-wide deflation seems to be taking hold it should be remembered that the search for remedies in such a situation was the original motive for the creation of the Bretton Woods institutions. International economic co-operation was not thought of as a fair-weather indulgence but as an essential way of providing the resources necessary for stabilization.

58. The international financial institutions have in the last decade become the object of scrutiny and criticism from very different directions. The world has changed very drastically since their creation, and although both the World Bank and IMF have also changed in many respects it is evident that there is much scope for further improvement. In the long run, a restructuring of the system is called for if it is to meet the demands of the international community in an equitable and efficient manner. But in the view of the Committee, an immediate need is to enhance the capacity of the international financial institutions.

59. There is no conflict between a growing reliance on private financial markets for intermediation between surplus and deficit countries and an enlargement of the resources of IMF, the World Bank and other intergovernmental financial institutions. For one thing, private lenders do not cater to the needs of all deficit countries, many of which must rely on development assistance and other forms of official finance. In addition, however, one reason for enlarging flows of official finance is precisely the need to maintain market confidence where developing countries have become significant borrowers in private markets.

60. One may well question whether the borrowing in private markets, notably in the Euromarket, will in coming years play as great a role in the supply of development finance to middle-income developing countries as it did in the 1970s. For one thing, their indebtedness is already giving some concern to the borrowers. Their

debts were contracted on the assumption of a steady increase in their export earning capacity, but the world recession, the steady deterioration in their terms of trade over the past few years and - not the least - the steep rise in the rate of interest have made debt service a much heavier burden than anticipated. Under present arrangements of variable interest lending, the rise in the London Interbank Offered Rates (LIBOR) by some 10 percentage points in recent years has meant a rise in annual interest change on developing-country debt of about $20 billion. Total debt service payments on non-oil developing countries were close to $100 billion in 1981, and the debt service ratio, which was 17 per cent in 1978 rose to 21 per cent. 2/ This, of course, does not reflect the full extent of the problem. Other financial outflows arise from private foreign investment: profit remittances, which are on the average of the order of one tenth of the debt service, 3/ and transfer-pricing practices and other payments, such as royalties, serve as channels for transferring investment income. Above all, however, averages conceal large differences among individual countries. For some countries debt service alone absorbed in 1981 more than half of the export earnings, and for many the combined bill for oil imports and debt service was of that magnitude.

61. When the debt service of major borrowers absorbs the better part of their revenue, the roll-over of funds between debtors and intermediaries without precipitating a crisis of confidence is burdensome to all parties. Bank perceptions of increased risk are already being reflected in a tightening of lending policies towards developing countries: since early 1980 the growth in medium- and short-term lending has slowed down considerably, fees have risen, interest-rate spreads widened, the average maturities declined.

62. There is much that can be done to improve the framework for sovereign borrowing in private markets. Technical assistance to new borrowers in such markets can be valuable. Reorganization and restructuring of debt should be recognized as a necessary part of debt management; the guidelines agreed upon in intergovernmental deliberations for the reorganization of official bilateral debt of interested developing countries 4/ could be developed so as to encompass also certain types of private debt.

63. But ultimately, market confidence is a matter of perception. The credit-worthiness of a country is at present not only a matter of the soundness of its policies and management but of the drift of the world economy. An affirmative approach to the global payments situation, recognizing the large volume of recycling as a process essential to world adjustment and development, would go a long way towards dispelling the uncertainties under which developing countries at present obtain market finance. Greater international intermediation, direct recycling, more portfolio and equity investment and long-term finance, and more concessional aid would all serve to support the various links in the recycling process.

2/ International Monetary Fund, World Economic Outlook (Washington, D.C., 1981), p. 135.

3/ Trade and Development Report, 1981, United Nations publication, Sales No. E.81.II.D.9), p. 15.

4/ See resolution 222 (XXI) of the Trade and Development Board.

64. Unfortunately, at a time when more rather than less is demanded there seems to be a danger that much of the machinery of international economic co-operation which has been so patiently built up is being dismantled. There has been a disturbing fall-off in the proportion of aid flowing through multilateral channels. The financial position of some of the United Nations specialized agencies is critical: the resources of UNDP have, in real terms, grown by only half of 1 per cent annually since 1970; in 1980 they did not grow at all, and in 1981 they declined.

65. The fall-off in the share of multilateral assistance is common to several donors. The Committee was particularly disturbed by the reduction by the United States of its previously pledged contribution to IDA. This seemed to reflect a deliberate withdrawal of support; it was accompanied by official statements critical of the multilateral institutions, which, in some cases, came close to questioning the principles on which these institutions were founded. The considerations that in 1958 led the Eisenhower Administration to champion the creation of a concessional window at the World Bank apply with undiminished force today. It is true that many countries have already been able to "graduate" from dependence on concessional finance, and that many more must be expected to do so in the future, but at the present time, and for decades to come, the need for concessional finance is unabated, particularly in the poorest countries. It must be recognized that flows at market terms and especially private flows of equity or loan funds cannot be a substitute for concessional flows, and that without an adequate flow of concessional finance, low-income countries cannot undertake the long-term infrastructural investments that are necessary to enable them in future to benefit from private investments.

66. If other countries follow the lead of the United States in order to retain the previous proportion of their contributions it appears that IDA lending would have to be cut by 37 per cent, at a time when the enlarged membership of the World Bank has greatly increased the potential call for its services. The Committee welcomes the recently announced intentions of several other donors to honour their original commitments, but this will not be enough to ward off a curtailment of IDA projects in the neediest regions. In the view of the Committee the restoration of IDA to the levels previously agreed upon, and its subsequent enlargement, is an immediate requirement.

67. The World Bank has in the past decade been able to make important contributions to world development. Its research on developmental issues has set new standards and contributed to an emerging global consensus on many issues of development policy. It has helped in the identification and appraisal of productive investment opportunities and the development of comprehensive investment programmes in key sectors, and it has emerged as a major supplier of technical assistance. It has with considerable success sought to mitigate the ideological and political controversies over development policy. If influential members of the Bank were to attempt to use the Bank for imposing their particular point of view, the World Bank's usefulness and stature as a leading international organization could only suffer, and the loss would be great not only for developing countries but for its richest members whose prosperity ultimately rests on the successful development of the world economy.

68. The contribution of the World Bank and of the regional development banks to the process of world adjustment is particularly great in supporting productive investments for development and structural change, and the proposals that have been made to enlarge their lending capacity in ways that do not impose pressures on government budgets deserve greater attention than they have so far received. The

World Bank could, for example, raise the ratio of loans to capital, increase the subscribed stock without paid-in capital contributions, create an energy facility with a voluntarily subscribed equity base, and accept term deposits from capital-surplus countries.

69. The multilateral financial institutions have a key role in international co-operation. While individual Governments may pursue their own interests through the institutions, the fact that those interests have to be harmonized in jointly agreed-upon actions and policies limits the promotion of the naturally self-regarding aims of individual countries. 5/ The multilateral agencies are thus able to compensate in some degree for the imbalances of bilateral programmes, which are of necessity selective in allocation to countries, sectors, projects and programmes. The proportion of multilateral aid directed to low-income countries is considerably higher than that of bilateral aid. Procurement is subject to international tender. Forums are provided for participation by aid recipients. Donor contributions are subject to mutual encouragement. Multilateral institutions have also been extremely important for institution-building in recipient countries.

70. For these and other reasons, multilateral financial institutions, far from incurring hostility and diminished support, deserve every encouragement from the international community, not least at a time of great international economic difficulties and of danger to the spirit of co-operation itself. 6/

71. An unfortunate feature of the current scene is a reawakening of issues long since settled. Thus new stress is given in some quarters to the role of "market orientation" in economic development. It is curious that such stress has occurred in a period when the role of private capital in development has become better understood and less controversial, and its value widely recognized. Analysis should distinguish between the importance of appropriate price signals for economic efficiency and the division of economic activity between private and public sectors, which depends on many factors, ranging from the relative capacity of public or private corporations to operate effectively in the general interest to considerations of political ideology. National pressures to prevent multilateral institutions from lending to public-sector enterprises or to countries which favour a particular public/private mix, are out of order. Such pressure may even run counter to the institutions' Articles of Agreement, which commonly enjoin them to refrain from imposing particular social, economic or political ideologies on their members. At the same time, much public-sector investment is positively supportive

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5/ The Committee noted with some puzzlement that a recent report from the United States Treasury seemed to find the multilateral development institutions highly efficient in their operations, yet nevertheless concluded that United States support should be reduced. See United States Department of the Treasury, United States Participation in the Multilateral Development Banks in the 1980s, (United States Government Printing Office, Washington, D.C., 1982).

6/ In general, while increases in the resources of these institutions are welcome, statements endorsing such increases should not be taken as implying lack of interest in reform of the institutions. In particular, the present constitution of some agencies is a deterrent to the acquisition of additional resources, in the case of potential country lenders who are not adequately represented in the agencies' management.

of and necessary for private-sector activity; there is rarely any conflict and virtually always much complementarity between the multilateral agencies' support for public investment and activities in the private sector - which of course the agencies also do an enormous amount to assist directly.

72. In the international monetary system, the growth of reserves has been erratic and its distribution uneven. An immediate step should, in the opinion of the Committee, be the resumption of SDR creation. The relative importance of the SDR in world non-gold reserves has declined from 8 per cent at the end of 1972 to less than 4 per cent by the end of 1981, and it would take an annual allocation of SDR 12 billion over the next period just to restore the 1972 share. By the end of 1981, reserve levels of some 30 developing countries had been reduced to the equivalent of one month of current imports or less. No convincing case can be made that such SDR allocations would be inflationary, especially in view of the high rate of interest now associated with their use, but they would help sustain world trade and promote adjustment.

73. The ability of the International Monetary Fund to assist in the present critical situation depends in the first place on the resources available to it. Compared to the needs arising from the size and nature of the imbalances that emerged in the 1970s, these resources have declined sharply. The disequilibria of many oil-importing developing countries cannot be met merely by demand management but require expansionist and supply-oriented policies pursued over a number of years. Balance-of-payments support has to adjust to those new requirements, and in the 1970s this was recognized by the creation of the Extended Fund Facility (EFF) with credits of as much as 10 years.

74. Since 1979 a great effort has been made to enlarge the Fund's capacity, including a 50 per cent increase in quotas in the Seventh General Review of 1980. However, this has only restored the ratio of the Fund's conditional resources to the current account imbalances of its members to the level of 1975, which was far below that of earlier periods. The erosion in the real value of the quotas, due to world inflation, has been even sharper. In 1960 total quotas were 12 per cent of world imports, and in 1970 they remained about 10 per cent, but at present they are below 3 per cent. To enable the Fund to provide more adequate support to its members' adjustment programmes, its policy has been revised to allow members to draw larger resources relative to their quotas, and for longer periods. Countries may now draw up to 150 per cent of their quotas, or a total of up to 450 per cent over a three-year period, in addition to their drawings under the facilities for compensatory and buffer-stock financing. This has restored members' access to the Fund to a higher level, but it has also significantly increased the share of a member's drawings that are subject to high conditionality.

75. The conditionality of the Fund's support has long engendered controversy. To a large extent this has focused on the harshness of programmes of demand restriction and the sacrifice of growth objectives. In the years since 1979 the Fund revised its approaches to conditionality and sought to pay greater attention to measures to encourage appropriate investments, sometimes in collaboration with the World Bank. However, IMF seems now to be reverting to a degree of conditionality that threatens to put a halt to many of the support programmes, since members are unable to meet the rigid performance criteria. Once again, there is a tendency for members to avoid going to IMF if they have access to commercial markets, which tends to make the Fund appear as a lender of last resort. This is unfortunate for many reasons, not least because members will be further deterred

from negotiating with the Fund if they fear that it will be taken as a sign of extreme weakness.

76. The Committee recommends that:

(a) A greater portion of Fund resources should be made available at lower conditionality.

(b) Member Governments should be more closely involved and listened to in the formulation of adjustment programmes, that the criteria to assess performance should be less rigid, that reviews should be less frequent and look more towards progress of the programme as a whole, instead of regarding failure on single points as reasons for suspension.

(c) Greater attention should be paid to sectoral requirements and investment programmes for expansionary adjustment.

77. The Committee also recommends consideration, in exceptional cases or protracted disputes, of some procedure by which a third party or parties might be associated with the negotiations and assist in reaching agreement. In the longer run, however, there is no substitute for greater confidence of members in the Fund and its staff.

78. Contentions over conditionality would also be eased by the enlargement of the resources available to the Fund. The Eighth Quota Review will be of crucial importance, and in the view of the Committee the proposals for enabling the Fund to borrow in financial markets deserve speedy attention.

79. The Committee has so far only emphasized steps of direct and urgent relevance to world economic recovery which can be speedily implemented. In the longer run, many other measures to improve the monetary and financial framework seem called for.

80. A decade has now passed since the collapse of the system of fixed exchange rates. But the events of subsequent years have shown that an unco-ordinated exchange régime based on flexible rates is not necessarily more effective in protecting domestic economies from external disturbances than one of fixed rates. Indeed the monetary instability of the 1970s has obviously made economic policy-making extremely difficult and must be suspected of having contributed greatly to the stagnation of international investment. A return to a greater degree of co-ordinated policies seems desirable.

81. Monetary instability in the 1970s has been aggravated by the emergence of a multiple-currency reserve system. The objective of "making the Special Drawing Rights the principal reserve asset in the international monetary system" is already inscribed in the amended Articles of Agreement of IMF. Although progress in this direction must in present circumstances be gradual, this objective must be reaffirmed.

82. Although it does not at present seem fruitful to propose very drastic changes in the international institutional framework, some ideas of considerable force should be kept alive:

(a) International monetary co-operation is not yet truly universal, and the rules for decision-making leave large groups of countries dissatisfied. The possibilities for constitutional and other changes in this area may appear

visionary today but if the world economy is launched upon a more expansionary path, their time may arrive sooner than expected.

(b) The proposal for a new world development fund, to take its place alongside the existing monetary and financial institutions, is intended to meet a significant gap in the present arrangements. Such a fund would meet financial needs which are difficult to meet in the present institutions, and it would offer an opportunity to diversify the channels of intermediation and to seek a new formula for decision-making. 7/

2. Development assistance

83. The importance of concessional flows has already been touched upon above in connexion with IDA. Attention must also be given to development assistance policies in general. Contrary to much comment, aid over all has been rising in volume and the prospect is for a continued - if modest - real increase in aid. Support for development assistance continues to be strong in most donor countries. Nevertheless, aid has come under attack in some quarters: the United States and the United Kingdom of Great Britain and Northern Ireland have announced intentions to reduce the volume of aid, and prominence has been given to critiques of aid in several countries.

84. The acute balance-of-payments positions of most of the poorer developing countries make this a time when significant increases in development assistance and improvements in its character are called for. There was an expansion of aid at a time of comparable need in the mid 1970s; and it is creditable that aid has been protected against budgetary stringency in a period of economic difficulty in many donor countries. Nevertheless, the international community is not responding adequately to current development assistance requirements, and the nature of some recent official actions and statements in certain countries gives rise to serious concern.

85. In 1980, ODA/GNP ratios were as follows: 1.35 per cent for countries of the Organization of Petroleum Exporting Countries (OPEC); 0.37 per cent for OECD Development Assistance Committee (DAC) members; and 0.12 per cent for the Council for Mutual Economic Assistance (CMEA) countries. 8/ The total volume of aid has risen at an average rate of 6-7 per cent annually in real terms since 1970, but is only expected to grow by 2-3 per cent in the near future. The decline of oil-revenue surpluses in OPEC countries will inhibit further increases in their development assistance, which was a substantial part of the growth of aid in the 1970s. But the DAC donors, who have the largest economic base, contribute 75 per cent of total ODA, and their policies - particularly those of the largest

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7/ A recent formulation of this proposal is contained in "World development fund; report of the Secretary-General" (A/36/572).

8/ See Organization for Economic Co-operation and Development, Development Assistance Committee, Development Co-operation: 1981, Review (Paris, 1981). It should be noted that the data for CMEA countries are derived from unofficial sources. When indirect forms of assistance, and particularly the terms and conditions of trade with developing countries, are taken into account, the ratio for those countries would be significantly higher.

single country - must influence its over-all volume; while the United States has by no means withdrawn from aid, its diminished commitment is a major factor. 9/ Some other long-standing issues in the field of development assistance have not been resolved. They are discussed below.

86. Programme lending. Concessional lending for balance-of-payments support is grossly inadequate for current needs. It does not relieve countries that lack foreign exchange for basic maintenance imports to be offered aid for new investments. In the present crisis many of the poorer developing countries cannot operate existing installations at capacity; transport systems cannot function for lack of imported spare parts; budget restrictions too, cut down a host of important activities from educational expansion to health programmes. In such circumstances the need for flexibly spendable foreign exchange is great, and the capacity to support new investment with domestic resources (let alone to mount programmes which would enhance that capacity over the longer run) is limited. Yet precisely this form of development assistance is in shortest supply.

87. The current situation has made this issue even more urgent in view of the collapse of commodity prices, on which the poorer countries are dependent for foreign exchange earnings. Existing measures to compensate for such export shortfalls (in particular, the IMF's Compensatory Finance Facility and the European Community's STABEX scheme) do not cover lasting export declines because of the moving-average formulae by which compensation is calculated. As well as urging improvements and enlargements of these facilities and increases in existing channels of programme lending (both bilateral and multilateral), the Committee also raised the question of whether renewed attention could be given to the principle of export-shortfall compensation embodied in the earlier proposal by the United Nations Conference on Trade and Development (UNCTAD) for supplementary financial measures, 10/ and to considering a comparable scheme, suitably modified in the light of present-day realities.

88. Aid co-ordination. The effectiveness of development assistance could be greatly enhanced by improved co-ordination, both among donors and among recipients, in regional and other groupings. The issue has been much discussed, 11/ but only modest progress has been made. Perhaps the most pressing instance of the need for co-ordination is in the poorest countries, where administrative resources are particularly scarce and where formidable problems are engendered for Governments having to negotiate with as many as 40 different agencies, each with different terms and conditions of assistance.

89. Aid tying. The effective devaluation of aid by tying practices continues. The multilateral and bilateral development assistance of some donors (OPEC, one or

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9/ Without the United States, the average ODA/GNP ratio of DAC donors is 0.44 per cent and several of them have individually announced intentions of raising their ratio.

10/ Under that proposal, put forward in the early days of UNCTAD, a country could seek support for its development plan from a fund created for the purpose, if exports fell below expected levels owing to reasons beyond the country's control and jeopardizing the plan.

11/ See, for example, Development Co-operation: 1981, Review, especially chap. III.

two DAC donors) is untied, and their example should be more widely followed. The Committee noted with concern the increasing use of aid by some donors as a form of credit competition to achieve export orders without regard to development criteria.

90. Aid distribution. A large proportion of development assistance - particularly bilateral aid - goes to the better-off among developing countries. This is most regrettable at a time when the needs of poorer countries, which do not have the capacity to service non-concessional borrowing, are so grave. The current inadequacy of aid is penalizing some countries more than others; a particular problem is that of the populous countries of southern Asia, whose requirements are large but have not been adequately considered in recent times. Some countries of high per capita income, at the same time, receive large concessional flows. The Committee believes there should be an internationally defined limit of per capita income, such that flows to countries above the limit should not be included in ODA totals. 12/

91. Food aid. A view has been expressed in some quarters that food aid should be confined to emergency situations. Such a view and other expressions of dissatisfaction with food aid stem from negative experiences associated with the provision of food aid in some situations, and from the feeling that aid for food purchases ought to be untied. Current assessments, however, do not support any general discrediting of food aid. On the contrary, while there have been examples of food aid reducing incentives for increased food production in some recipient countries, or of food supplied under aid schemes not reaching the people for whom it was intended, a great deal has now been learnt about how to make food aid effective and the conditions under which its negative effects can be avoided, in particular the inhibition of agricultural development in receiving countries and the stimulation of protectionism in donor countries. Where these conditions obtain, the use of food aid as part of the transfer of resources should be encouraged. Food aid comprises some 10-12 per cent of total ODA, and could well be expanded today, when European grain stocks are increasing, and the United States Government is once more promoting the withdrawal of acreage from grain production.

92. Domestic policies. It is clear that aid will contribute little to development objectives unless the recipient Government's own policies are firmly aligned with those purposes. It must be emphasized that sound economic management is necessary, and that the system of subsidies, controls, government intervention and public-sector operations in developing countries should be occasionally reviewed in order to make sure that it serves to mobilize resources and promote an equitable development, instead of generating untenable deficits, economic waste and growing inequality, as will sometimes be the case. The developing countries should also review their own protectionist policies to see whether they could further reduce some trade restrictions in their own interest as well as in that of their trading partners. Aid donors will be concerned about the effective and accountable use of aid funds, but aid conditionality should respect the borrower's fundamental development objectives.

12/ It would, of course, be necessary to take due account also of the variability of income and of other circumstances affecting a country's capacity to finance its own development.

D. Needs and opportunities for closer monetary and financial co-operation among developing countries

93. Economic co-operation among developing countries is still in its early stages, but the recession in the industrialized world has made it seem even more important than before. A great number of recommendations for such co-operation have been made in recent years, most of them summarized in the report of the High-level Conference on Economic Co-operation among Developing Countries held at Caracas in 1981. 13/ Many of them related to co-operation in trade - for instance, through preferential trade agreements - or to various forms of highly promising technical

co-operation, but as mentioned at the outset, the Committee has this year focused on international monetary and financial co-operation. Some of the more promising opportunities in this area include the ones discussed below.

94. Strengthening and interlinking payments arrangements. The recent past has seen considerable progress in the establishment of monetary arrangements among developing countries at the subregional and regional levels. A dozen such arrangements have been created. It would be desirable to establish links between them in order to promote interregional trade. Another step forward would be to advance from the clearing functions to which they are essentially constrained at present to the provision of medium-term balance-of-payments support to participating countries. To serve this purpose, the foreign exchange resources of the participating countries might have to be supplemented by support from multilateral development finance institutions.

95. Enlargement of existing financial facilities of developing countries. Some developing countries have been extending limited bilateral assistance to other developing countries, and multilateral developmental assistance, primarily from the OPEC countries, has been significant in recent years. Although the revenues of OPEC will, in the immediate future, suffer considerable attrition, the scope for mutually beneficial financial co-operation between them and the oil-importing developing countries will no doubt remain considerable. The effectiveness of the concessional flows from these institutions could be enhanced if long-term programme lending was adopted as the principal channel for such assistance.

96. Promoting investment flows among developing countries. Investment among developing countries involving the host countries as partners has been highly successful in some regions in recent years, and such joint ventures and equity participation and profit-sharing in general should be encouraged. This will require considerable improvement of the channels of information between countries seeking equity capital and potential suppliers.

97. Increased developing country participation in regional development banks. There are already plans to expand the capital base of the regional development banks which will offer possibilities of productive and secure investment for capital-surplus developing countries, which would also increase the collective control of developing countries over the policies and decision-making processes of these institutions. A shift to more development plan-oriented conditionality and greater emphasis on programme lending would also make the operations of regional development banks more responsive to the needs of their clients.

13/ "Development and international economic co-operation" (A/36/333), annex.

98. Term deposits with regional development banks. Deposits with regional development banks could attract more funds if stable and reasonable rates of return were offered and the value of interest and capital repayment were guaranteed in SDRs. This would involve no concession. But developing countries could also manifest their commitment to the regional development banks by placing part of their reserves on deposit with them at some sacrifice of interest.

99. Export credit guarantee facilities. A few institutions, such as the Inter-American Development Bank, the Andean Development Corporation and the Islamic Development Bank, provide financing facilities to support exports of member countries. However, in many other areas no such mechanisms are available. The extensive documentation of UNCTAD on this subject has established the need for an international mechanism to guarantee or refinance export credits extended by developing countries. It has been estimated that the average annual gross credit requirements between 1980 and 1985 could amount to approximately $8.4 billion. 14/ The rationale for the setting up of such a mechanism is that, while national export credit schemes, which do exist in several developing countries, enable the exporter to obtain immediate payment in local currency, the exporting country has to wait for the foreign exchange payments. An international credit guarantee facility could either buy the export credit bills or issue its guarantee for such bills, enabling them to be sold on the international capital market on favourable terms. This is one of the functions for which the proposed world development fund might be an appropriate institution.

14/ See "Export credits as a means of promoting exports from developing countries" (TD/B/C.3/164), p. 6.

II. IDENTIFICATION OF THE LEAST DEVELOPED AMONG THE DEVELOPING COUNTRIES

100. Subsequent to its 1981 session, the Committee for Development Planning was requested by the Economic and Social Council to consider whether the following six countries met the criteria for inclusion in the list of the least developed countries: Djibouti; Equatorial Guinea; Liberia; Sao Tome and Principe; Sierra Leone; and Togo. 15/

101. Following the practice established in earlier reviews, the Secretariat provided the Committee with the information necessary to update the per capita GDP criterion for changes in prices and the real growth of per capita GDP in world market economies. The adjusted lower and upper cut-off points of the per capita GDP criterion were found to be $285 and $340.

102. The Secretariat further supplied the Committee with the most recent available data on per capita GDP, share of manufacturing output in total GDP, and the rate of adult literacy for the countries concerned. Such information had been collected by the Secretariat from various organizations of the United Nations system. The Secretariat also provided the Committee information received from some of the countries in question.

103. Data originating from different sources showed in some cases an appreciable discrepancy, and a mechanical application of the criteria was therefore not feasible. From its examination of the available information, the Committee has concluded that whereas Liberia does not meet the criteria for identification as a least developed country, the other five countries under consideration do. The Committee, therefore, recommends that Djibouti, Equatorial Guinea, Sao Tome and Principe, Sierra Leone and Togo should be added to the list.

104. The Committee wishes to underline what it has already stated in earlier reviews of this kind - that in its opinion the criteria used for the identification of the least developed countries deserve to be reappraised, only so as to allow for a meaningful consideration of cases on the margin, where the weakness of the statistical information could have a bearing on the decisions of the Committee on these matters.

105. The Committee also wishes to recall the broader question of the usefulness of the numerous and overlapping groupings of disadvantaged developing countries, and in particular the possibility of their future integration and simplification. A reconsideration of these issues should not be allowed to result in sudden and disruptive changes in the classification of individual countries, but in the long run any classification will have to take due account of the inevitable changes in the relative positions of developing countries.

106. The acceptability to recipients and donors of those categories as guides for the allocation of international development assistance depends on the fairness and

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15/ For Togo, see Economic and Social Council resolution 1981/47; for the others, see Council decision 1982/106.

meaningfulness of the criteria. It would also be useful to bear in mind that the concept of least developed countries was initially formulated with respect to international technical assistance. The original purpose of the concept would be distorted by too general an application to all forms of development assistance.

107. If requested to do so, the Committee is prepared to assist in an examination of the above-mentioned matters, possibly in the context of the mid-term review of progress in the implementation of the Substantial New Programme of Action for the 1980s for the Least Developed Countries, adopted at the United Nations Conference on the Least Developed Countries, in Paris, in 1981.

III. ARRANGEMENTS FOR FUTURE WORK

108. In order to improve the effectiveness of its work and thus contribute to the process of revitalization of the Economic and Social Council currently under way, the Committee decided to institute the following trial changes in its work procedures, all of which can be carried out within present budgetary appropriations:

(a) More active use of the working groups, where the preparatory analytical work of the Committee will be carried out;

(b) Circulation of reports of working groups to the full Committee to permit more active participation of all members;

(c) Prior preparation by the Rapporteur, in consultation with the rapporteurs of the working groups, of a working document to provide a basis for the Committee's draft report. For this purpose the Committee will commission the Rapporteur for about a month to prepare the working document based on the reports of the working groups. This would be done sufficiently in advance for all members to receive the preliminary draft well before the session of the Committee;

(d) Although a full 10-day session of the Committee is provided for 1983, subsequent sessions could be shortened if the new procedures proved effective. In this event the sessions would avoid duplication of discussions in working groups and would instead focus on the finalization and approval of the draft report of the Committee and the preparation of a brief statement of recommendations, following a general discussion of critical development issues;

(e) A request that the Bureau, in consultation with the Secretariat, invite to the meetings of its working groups and the Committee itself high-level experts with backgrounds similar to those of the members who are unable to attend, to serve as co-opted members for a particular meeting or session in order to maintain the full range of expertise of the Committee and preserve its geographical balance;

(f) To invite on occasion the views on critical development issues of persons of distinguished achievement and international repute. In this regard, the Committee requested the Secretariat to undertake the necessary preparations.

109. In accordance with last year's decision of the Committee to focus its work programme "on particular aspects of the world economic situation and prospects as well as critical development problems in the North-South agenda hampering the effective implementation of the International Development Strategy for the Third United Nations Development Decade", the Committee proposes to consider the following three items at its nineteenth session, to be held in 1983:

(a) The world economic situation, with particular emphasis on problems of trade and primary commodities, and international aspects of inflation;

(b) Medium-term development prospects in preparation for the mid-Decade appraisal of progress in the implementation of the Strategy;

(c) Development patterns and styles, in light of the prospective evolution of the world economy.

110. Within the resources available to it, the Committee will convene two working groups in 1982 and one in early 1983 in order to facilitate the tasks to be undertaken by the Committee at its nineteenth session. The first working group will focus on development prospects of the world economy to the year 1990. The working group, consisting of six members appointed by the Bureau and assisted by two staff members from the Secretariat, will meet in Geneva in mid September. The working group will examine the work on medium-term prospects of a number of organizations of the United Nations system, including the underlying methodologies; outline the likely evolution of the world economy in the medium term, including export prospects for developing countries; and initiate assessment of policy changes required to improve performance. In carrying out this task, the working group will consider possible approaches to subsequent work on the review of progress in the implementation of the Strategy. The Committee requested the Secretariat to prepare, in consultation with the Chairman of the working group, a brief document outlining the main issues for consideration, and to make available relevant documentation prepared in various organizations of the United Nations system.

111. In addition, the Committee will convene a second working group on development patterns and styles in order to prepare for more detailed and focused consideration of this item at its next session. Preliminary discussion has already shown that the issues involved are complex and can be addressed through a variety of approaches. The main task of this working group, which would draw upon and seek to complement the discussion on medium-term development prospects, would be to contribute to an understanding of the longer-term social, cultural, environmental and political dimensions globally, and within different societies. In this context, the working group will examine the extent to which development strategies based on imitative patterns of development are suitable in the light of the long-term decline of growth in the advanced industrialized countries; the importance of more egalitarian styles of development with respect to the satisfaction of essential human needs and potential for the creation of employment and training opportunities; and the relevance of longer-term development strategies of self-reliance and collective self-reliance. The working group may also consider such issues as the emergence of "grass-roots" movements in both developed and developing countries; the role of the public sector; the impact of transnational corporations; the relationship between the formal and informal sectors; the problem of "brain drain"; the role of participatory approaches to planning and decision-making; and the potential for decentralized patterns of industrialization, urbanization and rural development. In order to take advantage of the vast expertise and extensive work on these issues carried out in the Economic Commission for Latin America, the Committee proposes to convene the meeting of the working group at Santiago, Chile, in early December. In order to avoid additional costs for interpretation and translation, the composition of the group will be so arranged as to have it conduct its business in the language for which the host commission has standing facilities. The working group, consisting of six members, will be assisted by two staff members from the Secretariat. In line with the authority provided in Economic and Social Council resolution 1625 (LI), the Committee requested the Secretariat to commission from a consultant a paper synthesizing the issues for use by the group. It also requested the Secretariat to make available relevant documentation prepared in various organizations of the United Nations system.

112. The third working group will consist of the two Rapporteurs of the other working groups and the Rapporteur of the Committee. The Committee proposes to

convene the group at Geneva for three days in early February 1983, in order to prepare an annotated outline of a working document based on the work of the working groups, for use by the Committee at its nineteenth session.

113. The Committee requested the Secretariat to prepare or make available the necessary documentation for use at its nineteenth session in connexion with item 1 of the proposed agenda. Also in line with the authority given in Council resolution 1625 (LI) the Committee requested that, in addition, the Secretariat commission from consultants two papers in connexion with the specialized topics to be considered by the Committee at its nineteenth session under item 1 of the proposed agenda.

114. Finally, the Committee had a preliminary exchange of views on possible topics for consideration at its session in 1984. The major part of that session will need to be devoted to aspects of the mid-Decade appraisal of progress in the implementation of the Strategy, and in this respect various topics were proposed. The Committee decided to consider its work programme for 1984 at its next session, in the light of developments in 1983.

Annex

AGENDA AND LIST OF BACKGROUND DOCUMENTS

A. Agenda

1. Current world economic situation and prospects

2. Critical international monetary and financial issues

   (a) Development assistance in the 1980s

   (b) Report of the Working Group on International Monetary and Financial Issues

3. Identification of the least developed among the developing countries

4. Identification of issues relating to development patterns and styles, including training and effective use of human resources, for detailed consideration at the 1983 session

5. Other arrangements for future work

6. Adoption of the report of the Committee to the Economic and Social Council

B. List of documents

Symbol	Title
	Documents of the Committee
E/AC.54/1982/1	Provisional agenda
E/AC.54/1982/2	Towards world economic recovery and international monetary stability: report of the Working Group on International Monetary and Financial Issues
E/AC.54/1982/3	Identification of the least developed among the developing countries: note by the Secretariat
E/AC.54/1982/L.1	The world economic situation 1981-1983: salient features: note by the Secretariat
	Other texts
	General Assembly documents
A/36/572	World development fund: report of the Secretary-General

Economic and Social Council resolutions and decisions

Resolution 1981/47	Review of the economic situation in Togo with a view to the inclusion of that country in the list of the least developed countries
Decision 1982/106	Request for the inclusion of Djibouti, Equatorial Guinea, Liberia, Sao Tome and Principe and Sierra Leone in the list of the least developed countries