

**UNITED**



**NATIONS**

**ECONOMIC DEVELOPMENT OF UNDER-DEVELOPED COUNTRIES**

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**SPECIAL UNITED NATIONS FUND FOR  
ECONOMIC DEVELOPMENT**

**Final report by Mr. Raymond Scheyven, prepared in pursuance of  
General Assembly resolution 724 B (VIII)**

**GENERAL ASSEMBLY  
OFFICIAL RECORDS: NINTH SESSION  
SUPPLEMENT No. 19 (A/2728)**

**NEW YORK, 1954**

**( 30 p.)**



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#### *N O T E*

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## LETTER OF TRANSMITTAL

I have the honour to submit to the United Nations General Assembly the final report on the establishment of a Special Fund for grants-in-aid and for low-interest, long-term loans which I was asked to prepare.

I should like to thank the General Assembly for the confidence it was kind enough to place in me.

I should also like to thank all the Governments which responded most cordially whenever I expressed a wish to consult them. I should have liked to visit the capital cities of all the States Members of the United Nations, but unfortunately, my time was limited and both the purpose of my mission and my terms of reference placed certain restrictions upon me.

My conversations with representatives of the great international organizations concerned with the problems I was asked to study were also most useful.

Lastly, I wish to thank the members of the United Nations Secretariat, who did everything possible to facilitate my task.

(Signed) Raymond SCHEYVEN

Brussels, 10 August 1954



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## TERMS OF REFERENCE

Resolution 724 B (VIII), on the economic development of under-developed countries, which was adopted by the United Nations General Assembly at its 468th plenary meeting on 7 December 1953, reads as follows:

*"The General Assembly*

"1. *Expresses* its great appreciation of the work of the Committee of Nine;

"2. *Invites* governments of States Members of the United Nations and of the specialized agencies in the economic and social field to transmit to the Secretary-General their detailed comments, both on the recommendations contained in the report of the Committee of Nine and on the degree of moral and material support which may be expected from them for such a fund;

"3. *Decides* to appoint the present President of the Economic and Social Council, Mr. Raymond Scheyven, to examine, with the assistance of the Secretary-General, the comments of governments submitted in response to the invitation contained in the preceding paragraph; to collate and where he judges necessary to request elaboration of such comments, if desirable by direct consultation with governments; and to submit to the Economic and Social Council at its eighteenth session an interim report on his work, and, in any event to submit to the General Assembly at its ninth session, a final report together with his comments, with a view to assisting it to make such recommendations as it would find possible which could facilitate the establishment of such a fund as soon as circumstances permit . . ."

## INTRODUCTION

During my visits to several capitals, I formed the conclusion that it would be most desirable to draw public attention, more especially in the industrialized countries, to the extreme poverty in which almost two-thirds of mankind are still living today and to submit to it the moral, political and economic arguments in favour of a great international programme of mutual assistance.

Furthermore, I found that there was not yet a complete conviction in certain authoritative quarters of the need to finance non-self-liquidating investment in the under-developed countries by means of an international fund.

I very often had the impression that some of the persons I was consulting believed that the United Nations specialized agencies as at present constituted, and more especially the International Bank for Reconstruction and Development and the Technical Assistance programmes, were able, along with private capital, to perform the task that would be assigned to the Special Fund.

Accordingly, I think a useful purpose will be served by devoting the greater part of this report to re-stating the arguments which demonstrate the need to develop the under-developed countries and to set up a special fund, as brought out in particular in the proceedings of the Second Committee of the General Assembly, the recent debates in the Economic and Social Council at Geneva, and the replies given by governments to the questionnaire sent to them by the Secretary-General of the United Nations.

Chapter II gives an account of the Special Fund from the time its establishment was first suggested in the United Nations up to the completion of the present mission.

Chapter III is devoted to the moral and material support which governments are prepared to accord the Special Fund.

Chapter IV examines the comments of governments in their replies in connexion with the report of the Committee of Nine.

Chapter V presents the comments which the General Assembly asked me to make in order to facilitate the establishment of the Fund as soon as circumstances permit.



## Chapter I

### 1. The solemn duty of the United Nations

Ever since its foundation, the United Nations has undertaken the task of promoting better standards of life in the under-developed countries.

In Articles 55 and 56 of the Charter the signatories formally pledged themselves to take joint and separate action to promote "higher standards of living, full employment, and conditions of economic and social progress and development".

#### THE GREAT PROBLEM OF OUR DAY: THE STRUGGLE AGAINST POVERTY

The wealthier peoples are still too little aware of the extreme poverty prevalent throughout the world, although in recent years persons of high intellectual and moral standing have raised their voices in an earnest endeavour to indicate its full extent. Their work has been extremely valuable, and it may be said that the extreme poverty in the world has now been surveyed. A tragic situation is revealed in which enough to eat and a decent standard of life are even today still the privilege of a minority of mankind.

These facts and their consequences must be brought home to people, and the general public in all countries, and more especially people in authority, must be made to realize that the struggle against poverty is still one of the most pressing tasks of our time. The problem is so far-reaching, however, that there can be no thought of presenting it in its entirety in a few pages. Accordingly, the broad outlines only will have to be given, with emphasis on the most salient facts.

#### CONSEQUENCES OF EXTREME POVERTY

It is difficult to conceive what this extreme poverty, which grinds down the greater part of mankind, really means without observing it at first hand. Poverty inexorably condemns hundreds of millions in Africa, Asia, Latin America and the Near and Middle East to hunger and compels them to live in filthy hovels. Endemic diseases fasten upon such easy prey. Hundreds of millions are illiterate and because of their ignorance regard their lot as the will of fate. Even in Europe there are still vast areas of poverty, disease and ignorance.

#### HUNGER

Hunger marches in the van of poverty—not merely occasional hunger due to some exceptional famine, but the daily endemic hunger experienced by more than 1,500 million human beings,<sup>1</sup> more than two-thirds of the human race.

Lulled by the amenities of their civilization and by their confidence in progress some might think that this situation is on the way to improvement. That, unfortunately, is not true; on the contrary, the per-

centage of the world's population which is definitely undernourished has risen from 38.6 per cent before the war to 59.5 per cent today.<sup>2</sup> It is almost incredible that with the tremendous means at our disposal we should have been unable to solve the world food problem at a time when scientific and technical progress has never been more evident.

These are the conditions in which the world's population is growing at the rate of 80,000 persons daily,<sup>3</sup> or approximately 30,000,000 annually. Unless adequate steps are taken, the problem will merely increase in extent: according to a United Nations study, the population of the world which was 2,400 million in 1950 might reach 3,600 million in some thirty years.<sup>4</sup>

#### SLUMS

Slums constitute a further problem. As the General Assembly has stated, a large portion of the human race lives in overcrowded conditions. In countless cases, whole families live in a single room, crowded together for the most part in tiny, dark and unhealthy mud hovels. Housing conditions such as these make the most elementary hygiene impossible and are a factor in propagating contagious diseases.<sup>5</sup>

#### DISEASE

Such food and housing conditions lead to a weakening of the human system, which falls easy prey to disease. As a result, cholera, pneumonia, malaria, tuberculosis, trachoma and yaws are prevalent in large areas of the world.

Investigations carried out by the World Health Organization<sup>6</sup> disclose that approximately 300 million people in the world suffer from malaria. In the urban centres of the under-developed areas, four times as many persons suffer from tuberculosis as in the cities of the Western countries. In the Near and Middle East and in southern Asia, trachoma and other eye diseases causing blindness are common. Cholera, typhoid and yellow fever epidemics still regularly ravage these areas, while gastric diseases, caused by poverty and malnutrition, take a heavy toll.

In many countries, the physical and mental powers of the population are thus sapped from childhood, so their capacity for work and physical and moral powers of resistance are irremediably weakened. As a result, hundreds of millions of persons die prematurely, worn

<sup>2</sup> See *Preliminary Report on the World Social Situation*, United Nations publication, Sales No.: 1952.IV.11, p. 41, table VII.

<sup>3</sup> See *Population and Vital Statistics Reports*, Statistical Papers, Series A.

<sup>4</sup> United Nations, "The Past and Future Growth of World Population: A Long-range View", *Population Bulletin*, No. 1, United Nations publication, Sales No.: 1952.XIII.2, p. 6.

<sup>5</sup> See *Preliminary Report on the World Social Situation*, United Nations publication, Sales No.: 1952.IV.11, p. 59.

<sup>6</sup> *Ibid.*, p. 22.

<sup>1</sup> See *Population*, Oct.-Dec. 1953, Institut national d'études démographiques, Paris, p. 631.

out by the unequal struggle they have been waging from birth against hunger, disease and despair—a struggle which their fathers and mothers before them had waged and lost.

The statistics for infant mortality are eloquent. Born in the circumstances described above, children in the under-privileged areas have a very limited expectation of life. Whereas in the wealthier countries only one child in thirty dies in infancy, in certain of the least favoured areas approximately five children in ten die before reaching adolescence.<sup>7</sup> And those who do survive will beget children even more debilitated by dietary deficiencies. The differences between the figures for the average expectation of life in various countries show how serious the situation is: the figure is 68 for males in Sweden, but only 27 in India.<sup>8</sup>

#### IGNORANCE

So far as education is concerned, the picture is equally depressing. One adult male in two can neither read nor write, and, in the under-developed countries educated persons apparently constitute less than four per cent of the total population. In some countries the percentage of illiterates exceeds 80 per cent.<sup>9</sup>

A tragic vicious circle thus exists; poverty, malnutrition and disease are sapping the vitality of the population of these countries and reducing their ability to undertake the enormous effort towards rehabilitation which their situation demands.

If this situation were to continue, it would give rise to great social and political problems and would ultimately cause these groups of people to be drawn to the most desperate solutions. Poverty poses a threat to which the more developed countries cannot close their eyes.

#### DIFFERENCE IN INCOME BETWEEN THE WEALTHIER AND THE POORER COUNTRIES

A brief glance at the table below, which gives an estimate of the national *per capita* income in various countries, will show how much poverty there is in the world.

The table shows that 66 per cent of the world's inhabitants have only 15 per cent of the total world income; *per capita* income in these areas amounted to some \$US 55 in 1949. On the other hand, one-third of the population receives 85 per cent of world income and enjoys an average individual income of about \$US 630, i.e., almost twelve times as much. While it is true that these figures must be accepted with some reservations, they do constitute a valid standard of reference and bring out the great gap between the wealthier and the poorer countries.

This appreciable difference between the living conditions of the peoples of the world becomes even more marked in areas where the rate of population growth exceeds that of the increase in national production, as is the case in certain under-developed countries.

*Distribution of income among seventy countries, 1949\**

	Average <i>per capita</i> income	Number of countries		Population Cumulative total (millions)	Per cent of total (round figures)	National income Cumulative total (millions of dollars)	Per cent of total (round figures)
		Cumulative total	Per cent of total				
Under	50 dollars.....	12	17	650.9	31	18,632	4
Under	200 dollars.....	40	57	1,381.1	66	74,962	15
Under	600 dollars.....	62	89	1,841.1	89	226,293	44
Under	900 dollars.....	69	99	1,930.7	93	296,270	58
Under	1,500 dollars.....	70	100	2,079.9	100	513,101	100

\* See *World Economic Report, 1949-50*. United Nations publication, Sales No.: 1951.II.C.1, p. 10, table 2.

#### POPULATION GROWTH

This observation concerning population growth is yet another reason for concern which should stimulate us to undertake action on a large scale. The 80,000 human beings who daily swell the world's population are already, in present conditions, causing acute problems which the data on malnutrition have adequately brought out. The further population growth which will result as advances are made in the under-privileged areas must also be taken into account.

Some authors point out that any expansion of production will, unless it is very considerable, be balanced or even exceeded by population growth, still further accelerated by better living conditions. The improvement of the situation in the under-developed countries is likely to have two results, a reduction in infant

mortality and a prolongation of life, which will both have the same effect of increasing the population.

This casts doubt on the very possibility of raising the standard of living in the under-developed countries.

It is a fact that the fertility rate is generally very high in poor countries, a phenomenon for which the authorities give physiological and psychological reasons. Certain dietary deficiencies cause extreme fertility. The joys of the family, too, are the only joys known to many of the under-privileged, although it is true that in certain clan or tribal organizations paternity does not entail any responsibility or arouse any family feeling. There is no doubt also that the raising of living standards might, at any rate at first, directly affect the rate of population growth, particularly as special attention will at the same time be given to the improvement of health.

To some extent, therefore, the question raised by population growth is well founded. But the matter must be considered realistically. Even the birth control advocated by some could not, according to expert

<sup>7</sup> Harold Wilson, *The War on World Poverty*, London, Gollancz, 1953, p. 16.

<sup>8</sup> See *Demographic Yearbook, 1951*, United Nations publication, Sales No.: 1952.XIII.1, pp. 530 and 536.

<sup>9</sup> See *Statistical Yearbook, 1949-50*, United Nations publication, Sales No.: 1950.XVII.3.

forecasts, prevent the world population from increasing considerably in the next few years. Moreover, while it is true that the rate of population growth tends to increase when living conditions improve, it is also an established fact that the birth rate tends to fall when living standards are raised above a certain level.

Disturbing though it is, the problem raised by population growth certainly cannot be adduced as valid grounds for taking no action. Indeed, the conclusion to be drawn is that development plans will have to allow for a certain initial increase in the rate of population growth as progress is made, and should be so conceived as to enable average *per capita* income to be raised despite that increase. Otherwise, a situation which is already serious at the present time will become even more serious in the future.

#### THE SITUATION IS NOT DESPERATE

Owing to the scope of the problems involved and the scale of the resources which will have to be employed, the situation might be regarded by some as desperate, if recent history did not provide examples which inspire confidence in human potentialities and show that considerable results can be achieved with relatively small means.

It is important, too, not to underestimate the cumulative impact of projects of limited scope, whose effects extend to other sectors. A campaign against disease, for instance, will not only restore a people's physical strength but will also help to increase productivity; similarly, educational advancement will indirectly affect national income by making it possible to introduce new agricultural, industrial and commercial methods. Once physical and mental inertia has been overcome, the possibilities of advancement increase and whole communities become imbued with a spirit of initiative. Latent energies grow and are expressed in a general drive by the entire community to achieve a better life.

#### THERE IS LAND ENOUGH TO FEED THE WORLD'S POPULATION

Of land there is no lack. Authoritative experts, in particular those of the United States Department of Agriculture, estimate that barely 2,000 million acres of a cultivable area of 16,000 million acres are under cultivation.<sup>10</sup> Mr. Colin Clark asserts that it is not even necessary to increase the area under cultivation in order to banish hunger; rational cultivation would be sufficient.<sup>11</sup> United Nations experts believe that it should be possible to increase the yield of many agricultural crops 50 per cent within two decades or less by the use of fertilizers, insecticides, better seeds and better crop rotation.<sup>12</sup>

When we turn from theory and forecast to actual achievements, we find that there have been some very

encouraging results. In Java, the use of a new variety of sugar cane has increased yields by 50 per cent. In Peru, the application of insect and disease control doubled potato production in four years.<sup>13</sup> During a brief visit to Iran, a team of United Nations Technical Assistance experts located fifty sites for wells for drinking water and irrigation.<sup>14</sup>

#### A CONSIDERABLE SUCCESS HAS ALREADY BEEN ACHIEVED IN DISEASE CONTROL

In Ceylon, where malaria had for centuries been undermining the health of two-thirds of the population, the malaria mortality rate was reduced by 82.5 per cent within three years, 1946-1949, by intensive use of DDT.<sup>15</sup> In Northern Thailand, malaria control has been carried out with such success that the inhabitants can now bring in a second rice crop. In those parts of Greece which were freed from malaria, the results are equally striking: there was, for example, an increase of 15 to 20 per cent in milk production.<sup>16</sup> Remarkable success has been obtained in yaws control campaigns carried out by certain governments in collaboration with the World Health Organization and the International Children's Emergency Fund. More than 300,000 sufferers from that disease were treated in Indonesia in 1950-1951 and the many cures have encouraged the authorities to continue and extend this health crusade.<sup>17</sup>

These few examples, selected from among many, are convincing: they show that the struggle has already begun successfully and they encourage us to continue it. We now know that if greater resources were put to work, poverty could be vanquished and the necessary conditions for the economic and social advancement of the under-developed areas could thus be created.

#### THE MEANS OF DEALING WITH THE PROBLEM CAN BE FOUND

The campaign against poverty is a vast operation which requires the mobilization of great financial resources. While it is true that the wealthy countries themselves have a growing need of capital to ensure their own development, experience has shown that they are capable of enormous efforts when circumstances require. Periods of economic advancement have also shown that the machinery of production can rapidly respond to an increase in demand. Thus, there is no reason to fear that the development of new countries will affect unfavourably the economies of the industrialized countries. In the short run, the effect of the programme will rather be a more complete utilization of existing means of production. In the long run, when the under-developed countries are sufficiently advanced, it will constitute a powerful stimulus to expansion.

<sup>13</sup> Harold Wilson, *The War on World Poverty*, London, 1953, Gollancz, p. 34.

<sup>14</sup> See *World Against Want*, United Nations publication, Sales No.: 1953.I.27, p. 13.

<sup>15</sup> See *Preliminary Report on the World Social Situation*, United Nations publication, Sales No.: 1952.IV.11, p. 28.

<sup>16</sup> Harold Wilson, *The War on World Poverty*, London, 1953, Gollancz, p. 73 and 75.

<sup>17</sup> See *Preliminary Report on the World Social Situation*, United Nations publication, Sales No.: 1952.IV.11, p. 22.

<sup>10</sup> Josué de Castro, *Géographie de la faim*, Paris, 1949, Editions ouvrières, Economie et humanisme, p. 35.

<sup>11</sup> Colin Clark, "The World's Capacity to Feed and Clothe Itself", in *The Way Ahead*, vol. II, No. 2.

<sup>12</sup> See *Measures for the Economic Development of Under-Developed Countries—Report by a Group of Experts appointed by the Secretary-General of the United Nations*, United Nations publication, Sales No.: 1951.II.B.2, para. 81.

## 2. Grounds for action

The debates both in the Economic and Social Council and in the General Assembly have brought out the three arguments in favour of assistance to the under-developed countries.

### THE MORAL IMPERATIVE

First and foremost, a feeling of human solidarity should prompt the wealthier countries to come to the help of the poorer countries. The poverty in the world, which I have illustrated above with a few figures, the possibility of remedial action, of which a few examples have been given, and the gloomy prospects facing an expanding population make it the duty of nations to help one another on an adequate scale. This appeal is addressed primarily to the conscience of mankind, whose civilization rests essentially on principles of solidarity and equality. If the wealthy peoples, who have often displayed generosity, realized the extent of poverty in the world, they would certainly not remain indifferent in the face of so much suffering.

### THE POLITICAL IMPERATIVE

At a time when every effort is being made to ensure world peace, should not the very causes of war be attacked at the political level? The first duty is to fight against poverty, which lies at the roots of contemporary political instability. The division into poor peoples and wealthy peoples quite obviously has formidable political implications. At a time when progress has removed frontiers between countries and between continents and has everywhere sown aspirations for a better life, such an unequal distribution of income among nations carries in itself the seeds of serious disturbances and constitutes a lasting danger to world peace.

True, this state of affairs has existed for a very long time and extreme poverty has been the lot of the great majority of mankind for centuries, but a new factor is appearing today. The poorer nations are beginning to realize that their position can be improved by modern techniques and they are aspiring towards a better life. It is the duty of our civilization to respond to these legitimate aspirations. If we do not succeed in doing so within a short enough space of time, how can we legitimately ask two-thirds of mankind to support a civilization which cannot provide for their bare subsistence?

Preoccupied as they are with these elementary subsistence needs, can we reasonably ask these hundreds of millions of human beings to respect human values as we conceive them? Respect for the human person and freedom have meaning only for those who are freed from the tyranny of elementary needs. World peace will gradually grow strong as democratic institutions develop, and those institutions can live and grow only in an atmosphere of economic vitality offering the poorer nations the prospect of a better future. Rightly, therefore, does the preamble to the United Nations Charter proclaim that "the economic and social advancement of all peoples" is one of the principal safeguards of peace.

### THE ECONOMIC IMPERATIVE

There is a further reason for action by the wealthier nations to assist the poorer nations—an economic

reason, combining duty with self-interest. The economic solidarity of the peoples is progressively becoming an essential element of policy; the prosperity of one group is coming to depend more and more on that of the others and the poverty of one limits the advancement of the others.

The industrialized countries intend to increase their production and their productivity in order to raise their standards of living. That is their right and, indeed, their duty. Growth is the law of economics: failure to advance means retreat. But increased production in the industrialized countries leads to increased consumption of primary products and, at the same time, creates the need for markets for the additional quantities produced. A supply problem and a problem of new markets thus arise.

### THE PROBLEM OF THE SUPPLY OF PRIMARY PRODUCTS

It is a paradox that extreme poverty is associated with huge potential wealth, of which the expanding world economy will have increasing need. The industrialized countries buy a substantial part of the primary products they need in the under-developed countries: they have a major interest, therefore, in ensuring that adequate supplies are available. The economic development of the new countries should bring about, *inter alia*, the expansion and rationalization of the production of basic materials, which will benefit the economy of both the industrialized countries and the under-developed countries.

The problem is of some urgency: the adequate supply of primary products for the use of the industrialized countries is not a problem for the long term. Some indices show that a supply problem already exists, for the world's manufacturing capacity has increased in recent years four times as fast as the production of primary products.<sup>18</sup> The Paley Report (*Resources for Freedom*) prepared for President Truman draws attention to the dangers this imbalance creates and predicts that, at the present rate of economic expansion, the United States will have to resort more and more each year to the importation of primary products.

### THE NEED TO INDUSTRIALIZE THE UNDER-DEVELOPED COUNTRIES

This does not mean that the economic activity of the under-developed countries should be restricted to agriculture and mining; on the contrary, their industrialization is fully justified for structural and economic reasons. A proper balance must be sought between the various sectors to be developed. United Nations organs have on several occasions rightly placed the emphasis on the need for agricultural advancement in the under-developed countries. Where there is hunger, obviously subsistence must first be assured. Similarly, if the subsoil of these areas is found to be rich in primary materials, those resources should equally be developed for the greatest good of both the poorer and the wealthier nations.

The under-developed countries will not, however, be able to achieve real prosperity unless they diversify

<sup>18</sup> Royal Institute of International Affairs, Information Department, *World Production of Raw Materials* (Information paper No. 18, March 1953), London-New York, 1953.

their activities. To try to restrict them to agriculture and the extraction of raw materials would be to establish their economy on a strongly cyclical basis, i.e., it would make it too sensitive to economic changes, as raw material prices are subject to considerable fluctuation. Moreover, technical advances and rationalization will continuously release agricultural labour, which will have to be assigned other work. Thus industrialization is an essential condition for a harmonious and balanced economy. No industries should be established, however, which could only survive, even over the longer term, within an artificial system of permanent protection. Industrialization should be carried out on an economically sound basis; thus conceived, the more advanced countries have nothing to fear from it. On the contrary, they can only benefit from expanded markets with increasing purchasing power, for growth in the volume of trade is merely the sign of the increasing prosperity of all concerned.

At the recent session of the Economic and Social Council, the representative of FAO appositely pointed out that in 1938, the last pre-war year, in which trade was relatively normal, Canada imported goods to the value of \$US 468 million from the United States, whereas Latin America, with ten times the population, received imports to the value of only \$US 564 million. That meant that Canada, a highly industrialized country, bought 41.3 dollars' worth of American goods *per capita*, whereas Latin America imported only 4.6 dollars' worth. In the same year, United Kingdom exports to Australia, a country in the course of rapid industrialization, had a value of £5.8s.0d. per head of population, as against less than 2s.0d. for exports to India and less than 4s.0d. for exports to Brazil.

#### THE PROBLEM OF NEW MARKETS

Economic expansion reflects increased prosperity and, hence, increased production. To produce more it is essential to sell more: thus, any increase in production is dependent on the opening of new markets. The under-developed countries, with two-thirds of the world's population, thus constitute extremely important potential markets. As their production and income expand, their capacity to purchase goods and services abroad will grow.

It is true that some industrial countries, especially those which have a very large home market, would be able to ensure an adequate expansion of their economy by finding the necessary markets at home. Industrialized countries which do not have equally large outlets in their domestic markets cannot maintain and stimulate their expansion except by developing their foreign trade.

But the wealthier countries are now confronted on the international level with a problem which in the course of their history they have had to solve on the domestic level. The very progress they made in their development led them to distribute their national income more equitably, and this redistribution has proved a powerful stimulus to economic progress by increasing the purchasing power of broad strata of the population. The better distribution of wealth which will follow from the development of the under-developed countries will gradually broaden the world's economic base and should have the same favourable effects on the world's economy as those experienced in the past in national economies, but on a much larger scale.

The markets which could be opened up are so vast that a bold policy of developing the under-developed countries might well enable the world in the near future to enjoy an economic activity and a prosperity hitherto unknown. Such a policy might well provide the elements of a decisive and lasting solution of the problem of recession, which constitutes a very great social evil, and that of maintaining the international financial equilibrium, which is vainly being attacked from the excessively narrow angle of trade among the wealthier countries. The expansion of domestic markets will revive the export of private capital, which, together with transfers of public capital and the expansion of international trade, will help to remove the international financial imbalance.

#### ACTION TO PREVENT RECESSION

These prospects of new market outlets and additional sources of employment would be the more attractive in that international economic activity might slacken as a result of the fall in the expenditure on armaments, which has played a large part in maintaining production levels in the past few years. Had it proved possible to begin the economic expansion of the under-developed countries, the markets represented by those countries would have a very important place in the complex of measures applied by governments to strengthen a faltering rhythm of economic activity. The full effects of an anti-cyclical policy based on the development of the poor countries, however, will be felt only in the long run, when these countries have progressed sufficiently to bring an appreciable increase in the demand for imports. This economic expansion of the poor countries will have particularly desirable effects on economies with only a limited home market, on which anti-cyclical measures necessarily have a much more limited impact.

The development of a new country, however, takes time. Campaigns against disease, the building of schools, the training of skilled workers, the erection of dams and the digging of irrigation canals are long-term undertakings; yet they are only the prerequisite of increased production and income. It is important, therefore, not to await the onset of a recession before tackling the problem of economic development. The assistance needed in setting up the infrastructure of the under-developed countries must be enlisted forthwith.

Nevertheless, the initial operations of the Special Fund, which will concentrate mainly upon the purchase of capital goods, will have an immediate effect upon the economy of the industrialized countries. The execution of the development programmes will require the help of technicians and the use of equipment which only the developed countries can supply. It should be remembered at this point that, according to the suggestions of the Committee of Nine, the contribution of the industrialized countries would be paid in their local currency and would be used to finance the purchases of the under-developed countries from the industries of the former. The contribution of the industrialized countries will thus create a flow of additional exports.

#### FORTUNATE HARMONY OF INTERESTS

The poverty of the under-developed countries is such as to give moral considerations a clear precedence

over economic considerations. The rich countries cannot base their attitude solely on their own interests but must take their stand on a sense and a duty of international solidarity. It is fortunate, however, that in this case duty and interest coincide.

During the sixteenth session a member of the Economic and Social Council rightly said: "Human nature being what it is, it is reasonable to assume that its motive for action is personal interest, disguised whenever possible as generosity".

It is only human that industrialized countries should make a greater effort on behalf of the under-developed countries if they are confronted not only with an appeal to their beneficence but also with a demonstration that their own interest is involved.

### 3. Results achieved

It is pleasing to record that the world has not remained indifferent to the distress just described and that the rich countries have rendered the poor countries substantial assistance, bilaterally, multilaterally, or through United Nations channels.

#### BILATERAL OR MULTILATERAL ASSISTANCE

In their replies to the United Nations Secretariat some governments have emphasized the efforts made under their direction for the economic development of dependent or Trust Territories. Other governments have stated the amount of assistance they have granted, on a bilateral or multilateral basis, to certain countries with which they have not the same ties. More detailed information on this subject will be found in the replies of governments.

#### UNITED NATIONS CHANNELS

An unprecedented amount of international co-operation has been achieved within the United Nations and the specialized agencies.

The technical assistance programme, launched on a modest scale in 1948, has been followed by an expanded programme which has made a potent contribution to the spread of technical knowledge in the under-developed countries. While the results of this activity are difficult to express in precise figures, it is none the less of the greatest importance and will have even more telling results in the long run.

The part played by the specialized agencies must also be mentioned. The United Nations Food and Agriculture Organization (FAO) helps to increase agricultural production. It endeavours to improve farming methods and it spreads among rural populations technical knowledge concerning such matters as, for instance, the systematic use of selected seed and chemical fertilizers. The World Health Organization (WHO) concentrates on public health and hygiene; under its guidance appreciable progress has been made in the campaign against endemic diseases. It has also launched

#### NEED FOR AN INFORMED PUBLIC OPINION

There is thus a fortunate harmony of interests between those called upon to contribute to the financing of the Special Fund and the peoples which are to be its direct beneficiaries. The governments of the industrialized countries should make this essential fact known in order to gain the support of public opinion. What reaction can such an information campaign be expected to produce? It cannot be other than favourable. The situation of the under-developed countries speaks loudly enough for itself; as soon as it has been described and explained, it cannot fail to stir an impulse of solidarity in all hearts and this feeling will be the more readily translated into action in that the rich countries will realize that it is a matter of pursuing a realistic economic policy eminently favourable to their own interests.

vast education campaigns to teach the under-developed peoples the elementary rules of hygiene which affect the general standard of health. The United Nations Educational, Scientific and Cultural Organization (UNESCO) plays an equally important part in educating the populations of the under-developed countries and raising their intellectual level. Lastly, the International Labour Office (ILO), in its own social and economic field of action, helps to improve the education and vocational training of workers and to form the skilled labour forces urgently needed by countries in the course of industrialization.

The activity of the International Bank for Reconstruction and Development will be described later in this chapter. The International Monetary Fund, despite the limitations imposed by its statutes and resources, has on several occasions acted to strengthen the monetary reserves in many under-developed countries.

The world has certainly not proved lacking in understanding and generosity; action has been taken at every sensitive spot and some estimates put the financial effort involved at between 1,000 and 1,500 million dollars a year.<sup>19</sup> It is true that this action is slight in comparison with the need; but the assistance rendered, whether under bilateral or multilateral agreements or through the international agencies, is none the less a positive and generous factor in the campaign against poverty. The gesture made by the rich countries is the more significant in that their aid was rendered at a time when some of them were passing through a difficult period of reconstruction and rearmament. Nor can there be any question that their needs are equally great today; in addition to their heavy burden of armament they have to face the same problem, albeit from a higher level, of domestic economic expansion.

<sup>19</sup> See *Measures for the Economic Development of Under-developed Countries—Report by a Group of Experts appointed by the Secretary-General of the United Nations*, United Nations publication, Sales No.: 1951.II.B.2, para. 247.

#### 4. Broad lines of action

If all nations can agree on the need to combat poverty and the possibility of overcoming it, it should also be possible to reach general agreement on the broad lines of the action to be taken.

##### THE ONLY REMEDY: ECONOMIC DEVELOPMENT

There can be no question that the way to put an end to poverty lies in economic development. Poverty is nothing but the inadequacy of income. The income of a country depends upon its production and productivity, which must accordingly be increased. This, however, can be done only at the price of investment, a price which rises as technique improves and the scope of undertakings grows. Such investment calls for substantial capital and for the employment of many skilled technicians. An efficient modern economy is inconceivable where either of these factors is lacking.

This requirement adds to the difficulty of launching economic development programmes in new countries. In the industrialized countries the technicians, with centuries of tradition behind them, have learned their trades from generation to generation and capital has been built up at every stage of development. Hence these countries have been able to build up their economies gradually, without any interruptions between the successive stages. If the under-developed countries wish to advance, they must today go through the intermediate stages of technical training and capital formation and in some cases put complex and costly industrial installations into operation straight away. They have, however, the advantage of benefiting by the experience gained by the industrialized countries, which will enable them to avoid all the stages of trial and error which have preceded existing achievements.

##### NEED FOR FOREIGN CAPITAL

Economic progress in the under-developed countries requires substantial capital. The governments of these countries, therefore, must without further delay take the necessary steps to ensure the domestic formation of capital and the fullest possible mobilization of savings. The need for this has been proclaimed several times by the various organs of the United Nations and has again and again been acknowledged by all countries.

It is difficult, however, to expand savings sufficiently in countries where the national income is low and where any attempt to limit consumption would only reduce still further a standard of living which is already too low. From this we conclude that it is difficult to develop under-developed countries adequately without an initial supply of foreign capital. The savings of the economically developed countries, in the form of exported capital, must make up for the paucity of savings in the under-developed countries. At the same time the rich countries must give the new countries the benefit of the knowledge and experience of their technicians.

If sufficient foreign capital and technicians were not forthcoming, the economic development of the poor countries could not proceed except at the slow pace necessitated by the building up of a small amount of savings and the training of local technicians. The danger would be that this slow pace of development might lag behind the rate of population increase, thus widen-

ing the disparity between the respective situations of the rich and the poor countries.

##### A PROMINENT EXAMPLE

The work to be done for the under-developed countries is comparable, *mutatis mutandis*, with that made possible in Europe by the Marshall Plan. Under this plan the United States of America came to the aid of eighteen European countries which had been hard hit by war and were faced with grave social and economic problems. In the four years from 1948 to 1952 the United States supplied aid amounting to 13,500 million dollars, 90 per cent of which took the form of gifts and 10 per cent that of loans at from 2.5 to 4 per cent interest. The results were quickly apparent. Many European nations were soon in a position to renounce of their own accord the aid so generously rendered. Without wishing in any way to minimize the generosity of the American gesture, we may say that the economy of the United States probably shared in the benefit accruing from the restoration of the European economy.

It is true that the European countries, by their own efforts, could gradually have climbed the uphill road in the course of many years of painful endeavour which would have entailed all manner of privations for their people, as well as the political troubles usually attendant on difficult times.

The United States Government had the support of a well-informed public opinion which accepted a heavy fiscal burden amounting in the first year to an average of 40 dollars *per capita* and 100 dollars per taxpayer. This illustration shows that an enlightened public opinion is capable of responding when an appeal is made to its generosity.

Today all the rich peoples should unite in a joint effort of aid for the benefit of the under-developed countries.

##### EXPERT OPINION ON THE NEED FOR SUBSTANTIAL INVESTMENT OF FOREIGN CAPITAL

United Nations experts have endeavored to estimate the amount of capital which would be required to effect an adequate improvement of the standard of living in the under-developed countries. They themselves emphasize that their figures are approximate and are to be regarded as little more than an indication of order of magnitude. Such estimation, moreover, is rendered especially difficult by the necessity of making assumptions and by the inadequacy of statistical information.

According to their calculations the amount of capital needed each year to raise the national *per capita* income in under-developed areas by 2 per cent per annum would be something like 19,000 million dollars. About 5,000 million dollars of this could be provided by domestic savings. A deficit of 14,000 million dollars a year would thus remain to be met.<sup>20</sup>

Even bearing in mind that better methods of increasing and utilizing domestic savings could be applied in the under-developed countries and that such savings tend to increase as the standard of living rises, the ex-

<sup>20</sup> See *Measures for the Economic Development of Under-Developed Countries—Report by a Group of Experts appointed by the Secretary-General of the United Nations*, United Nations publication, Sales No.: 1951.II.B.2, paras. 245 and 246.

perts estimate that a 2 per cent increase in national *per capita* income is out of the question unless more than 10,000 million dollars of capital, 3,000 million dollars of which would be grants, is imported annually.

The experts consider this contribution of 10,000 million dollars to be within the capacities of the economically developed countries, for it represents some 2 per cent of the national income of the countries of Western Europe, Australasia, the United States of America and Canada, the total income of which amounts today to some 500,000 million dollars. It should be observed, however, that a transfer of 2 per cent of a country's national income represents, in practical terms, a vast operation entailing great financial sacrifice.

#### NEED FOR CAREFUL PREPARATION TO MAKE THE BEST USE OF FOREIGN CAPITAL AND TECHNICIANS

On the basis of the experts' estimate of needs there is clearly room for speculation whether the under-developed countries have the technical and human resources necessary for the rapid and effective absorption of such a massive influx of foreign capital, whether this takes the form of loans or grants. In this connexion it should be noted that the efficient and rapid distribution of sums of this size is no easy matter, for in practice it is a complex operation requiring careful preparation. The first necessity is to draw up programmes and priorities so that, in accordance with the wish of all, "every dollar spent shall make the maximum contribution to economic development". This is a very important task, and should be prepared well in advance if a sufficiently rapid start is to be made; the beneficiary countries clearly have a leading part to play in this work. Then, even if the financial means can be found, the necessary technicians must be available. These are scarce in poor countries, and it may well be that the industrialized countries themselves have not enough of them to cope with so many new tasks. This aspect of the problem, too, should be given immediate consideration. Lastly, attention should be drawn to the risk of inflationary pressure to which an accelerated rate of investment in the under-developed countries might give rise; the objectives of the development programme will only be achieved within the framework of a healthy monetary and financial policy.

#### SMALL SUMS CAN ACHIEVE MIRACLES

Without wishing to underestimate the vast amount of investment which will be needed for several years, we may none the less affirm that, as a result of the steady improvement of the standard of living of the populations, the proportion of domestic capital will gradually increase until it provides the major part of the necessary finance. Thus, while the Belgian Congo is only in the first stage of development, more than three-quarters of the public and private investment in that country is already financed from local resources.

The results achieved with a limited amount of aid must also be emphasized. They show that remarkable accomplishments are possible even when the very large sums just mentioned are not available in the first instance. With the aid of a modest loan of 5 million dollars from the International Bank for Reconstruction and Development, Colombia has been able within three

years to develop its agriculture to such an extent that today it is self-supporting in sugar, rice, wheat and barley and even exports some surpluses of these products.<sup>21</sup> The Economic Commission for Latin America points out that the production of the countries of that continent has increased considerably each year since the Second World War and that most of the investment undertaken in that period was financed by local Latin-American capital.<sup>22</sup>

Hence we feel with the President of the International Bank that: "with the initiative of individuals and communities, provided that initiative is properly directed, miracles can be achieved with small sums".<sup>23</sup>

#### SUCCESS DEPENDS ON THE UNDER-DEVELOPED COUNTRIES THEMSELVES

To make this a reality, however, the structural reforms needed to derive the full effects from the financial efforts made will have to be carried out in many of the under-developed countries. While external aid is necessary, it can never play more than a supporting role. The introduction of capital goods and the presence of technicians are indeed essential, but are not sufficient in themselves to bring about progress. Economic development is not imported "prefabricated" from abroad, but is achieved on the spot by dint of a courageous and intelligent policy.

In many under-developed countries the way to progress must be opened by abandoning ancient prejudices and archaic customs, adapting social and legal institutions, suppressing barriers of caste or race and doing away with political and social privileges which serve the interests of a minority at the expense of the general welfare. Economic progress is possible only if those in authority desire it and accept its political and social consequences.

As part of the necessary financial aid must take the form of grants, the industrialized countries must have recourse to taxation. Before this source of finance can be tapped, the taxpayers must be convinced of the value of the sacrifices asked of them. Their effort must not be compromised by bad political management and the tax they pay must not be a substitute for the taxes that an enormously wealthy ruling class, indifferent to the poverty of its fellow citizens, might be unwilling to pay.

It is therefore necessary to introduce structural reforms, while maintaining full respect for the sovereignty of the under-developed countries. It might be easier to carry out such structural reforms through an international organization, which is in a better position to spare national susceptibilities. The intervention of any one country in reforms of this nature would be a very difficult matter, as is illustrated by the reactions which have been aroused whenever lending countries have sought to make their investments conditional upon stipulations which the borrowing countries regarded as infringements of their sovereignty.

<sup>21</sup> See *Official Records of the General Assembly, Eighth Session, Second Committee*, 260th meeting, para. 28.

<sup>22</sup> See *Official Records of the General Assembly, Eighth Session, Second Committee*, 259th meeting, para. 25.

<sup>23</sup> See *Official Records of the Economic and Social Council, Seventeenth Session*, 775th meeting.

## 5. The need to finance non-self-liquidating investments

Despite the favourable votes in the General Assembly, some sections of opinion do not yet appear to be altogether convinced that non-self-liquidating investments will have to be financed through an international fund. Having summarized in the first part of this chapter the arguments in favour of developing the under-developed countries we must now pass in review the arguments in support of the establishment of a Special Fund and show that neither private capital nor existing international agencies can ensure the financing of non-self-liquidating investments. Lastly, we must consider whether the measures which the United Nations proposes to adopt to ensure the development of the under-developed countries should be placed in order of priority or should all be undertaken together under a general plan.

In the action undertaken by the United Nations the financing of non-self-liquidating investments has not so far received systematic consideration, although the various United Nations organs have repeatedly emphasized the special importance of this type of investment. No better definition of the problem can be found than that given by the Sub-Commission on Economic Development:

"Any programme of economic development, of necessity, contains a proportion of low-yielding and slow-yielding projects which yet are essential pre-conditions for the high-yielding and rapid-yielding projects.

"... Such basic projects... include investments necessary for the promotion of health, education and housing—the human or social overhead capital—and of transport, communications, power and other public utilities—the economic overhead capital. These projects provide little or no yield in foreign exchange, usually furnish low yields in the short run and also generally require a considerable period of time before their yield can be realized in financial terms because their benefits are derived from the more balanced development of the economic activities which utilize their services."<sup>24</sup>

If economic progress is to take place at an adequate rate there must be a complex of investments to form what is known as the "economic and social infrastructure" of a country. The importance of this infrastructure is plain. Roads, railways, canals, port installations and sources of power create opportunities for business enterprise; clearing, irrigation and drainage make more land available for tillage. Schools train the labour force and universities the leaders. Hospitals foster the improvement of health and hygiene. When the State has sufficient resources at its disposal it usually provides these services and finances these public institutions.

The expression "non-self-liquidating investments" (*investissements non rentables*) is somewhat vague, and has been much debated. A distinction has to be made between the general economic sense and the strictly financial sense of the term "self-liquidating". From the general economic standpoint all infrastruc-

ture investments, whether social or economic, may be regarded as directly or indirectly self-liquidating, since they all contribute to the short-term or long-term development of the economy. But when we are considering the financing of the infrastructure, the term "self-liquidating" has to be given its financial meaning, namely, producing a return on capital. Viewed from this standpoint, many forms of infrastructure investment have to be regarded as non-self-liquidating, in that they yield no financial return on the capital invested, or that they yield such a return only after an unduly long period. It seems therefore that the question whether a given investment is non-self-liquidating must be decided in the light of a number of factors, which vary in different situations and different countries. It follows that the credit-granting body should be allowed some discretion.

Infrastructure investment is necessary in every economy, varying according to the stage of development of the economy concerned. Thus, experts consider that in the development of an under-developed territory 60 per cent of overall investment must be devoted to the infrastructure during the initial stage, whereas in industrialized countries, where the purpose of such investment is merely to maintain, adapt and supplement the existing infrastructure, the proportion is roughly the reverse.

These estimates, it may be noted, are borne out by a survey of African Non-Self-Governing Territories south of the Sahara carried out by the Organization for European Economic Co-operation. For the ten-year period 1946-1955, the development plan provides for public investment amounting to \$US 5,000 million and private investment of \$US 3,000 million—i.e., a proportion of over 60 per cent of public capital. Between 1946 and 1950, the public capital actually invested in the Non-Self-Governing Territories south of the Sahara amounted to \$US 1,300 million and the private capital to \$US 750 million, i.e., a proportion of public capital of 63 per cent.<sup>25</sup>

### THE NECESSITY OF FINANCING NON-SELF-LIQUIDATING INVESTMENT BY PUBLIC CAPITAL

Private capital normally seeks a profit, and will be unwilling to finance investments offering no profit, or investments the return on which is likely to be distant or uncertain. Thus the bulk of the infrastructure investment cannot be financed out of private capital, which means that if the development of the poor countries is to be accelerated the assistance of public capital will have to be called in.

This does not mean that private capital plays no part in investment of a social nature; but it usually does so only to a limited extent, and, more especially, in conjunction with already existing and profitable enterprises. These points are borne out by the available statistics. At the end of 1953, American private capital invested abroad was distributed as follows: 39 per cent in mines and oil installations, 32 per cent in manufacturing industry, and 10 per cent in public utilities, these

<sup>24</sup> See document E/CN.1/80 (*Report of the Fourth Session of the Sub-Commission on Economic Development*), paras. 11 and 12.

<sup>25</sup> See *The International Flow of Private Capital, 1946-1952*, United Nations publication, Sales No.: 1954.II.D.1, pp. 31-32.

in most cases representing the necessary accompaniment of the industrial activity financed by American capital.<sup>26</sup>

Governments of under-developed countries are no longer able, as they once were, to finance non-self-liquidating investment themselves by floating loans in foreign markets. This method of financing should be restored as fully as possible, and so far as the borrowing capacity of the under-developed countries will allow. But the difficulty at present is to find investors in the industrialized countries, because—among other reasons—certain countries have not always honoured their obligations. If all available financial resources are to be marshalled, therefore, confidence must be restored in this respect also.

#### THE ROLE OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT IN THE FINANCING OF INVESTMENT

The investment finance agency of the United Nations is the International Bank for Reconstruction and Development. Although the Bank has done a great deal of effective work, the restrictions imposed upon it by its articles of agreement sometimes prevent it from making the contribution which would be necessary to ensure the sufficiently rapid development of the under-developed countries.

For purposes of economic development, the Bank was set up to grant long-term bank loans to governments and to private undertakings backed by government guarantees. It performs these financial operations only if it considers the borrowing country capable of honouring its obligations or of guaranteeing that they will be carried out.

The principal interest of the amounts borrowed are often expressed in dollars or other hard currencies, since the Bank's resources are mainly in strong currencies. In carrying out such operations, therefore, the Bank must usually evaluate the borrowing countries' debt-repaying capacity in dollars or other hard currencies. But the under-developed countries have very restricted borrowing capacity, particularly in scarce currencies. The Bank, therefore, makes loans mainly, though not exclusively, for self-liquidating development projects offering a return in hard currency and enabling the borrower to service his debt. Accordingly, the Bank's share in the financing of infrastructure investment in the under-developed countries is limited by the nature of the banking operations imposed on it by its articles of agreement; and many projects—even projects of very great importance from the point of view of economic development—cannot be financed by the Bank.

Despite these restrictions, the Bank has granted loans to a total amount of about \$US 2,000 million in its eight years of existence. In addition, it has done a great deal to organize a capital market in the under-developed countries, in particular by helping to set up and finance development banks, and has given these countries the benefit of its very great technical experience.

It is true that some of the provisions of the Bank's articles of agreement might perhaps be made more flexible; but such changes must never be allowed to

modify its fundamental character. The Bank's function as a supplier of credit must be preserved intact, in accordance with the principles of sound finance. The financing of economic development should be normally effected through this agency; it is the quite exceptional magnitude of the problem that has given rise to the idea of a special fund to complement the existing institutions.

Aware of the Bank's limitations in the financing of the development of the under-developed areas, Mr Black, its President, propounded the problem very accurately in his speech before the United Nations General Assembly on 10 December 1951, when he himself put forward the idea of financing by way of grants: "... the management of the Bank, which regarded the development task as urgent, believed that in some countries the rate of development could not be substantially accelerated if the only external capital they received was in the form of loans with a reasonable prospect of repayment. It strongly believed that any additional assistance given to those countries should be in the form of grants rather than quasi-loans, that the grants should preferably be administered through international channels, and that, to the fullest extent practicable, the technical facilities of existing international agencies should be utilized for such administration."<sup>27</sup>

#### THE ROLE OF TECHNICAL ASSISTANCE

The funds available for the Expanded Programme of Technical Assistance amount to something between \$US 20 million and \$US 25 million per year, little enough in comparison with the essential needs of the under-developed countries. The programme is primarily one of mutual aid between the more developed and the less advanced countries. This co-operation takes the form of a sharing-out of the technical skills that the economically more developed countries have accumulated over the centuries.

Most of the activities undertaken under the programme are of an exploratory or preliminary nature; they have included country surveys of overall economic resources, the establishment of institutional cadres on a sound basis (in public administration for example), the working out of methods for collecting and utilizing the statistical data which are indispensable for an overall programme of development and vocational training in the most diverse fields, such as civil engineering, agriculture, public education, medicine, etc.

No doubt the technical assistance budget could usefully be much enlarged, thus permitting an increase in the valuable work of the Expanded Programme; however it would in many cases be useless to send out more technical experts since the recommendations they could make on the economic and social development of a country could not be implemented for lack of adequate resources. Many projects undertaken under the technical assistance programme necessitate non-self-liquidating investment; for example, flood control works, programmes for the prevention of soil alkalinity and the eradication of malaria (an essential pre-condition for the cultivation of the soil or the reclamation of marsh land) and similar undertakings require large amounts of capital. The Special Fund would reinforce technical assistance activities by enabling projects found

<sup>26</sup> See U. S. Department of Commerce, Office of Business Economics, *Supplement to the Survey of Current Business—Foreign Investments of the United States, Census of 1950*. Washington, D. C., 1953, page 9, table 6.

<sup>27</sup> See *Official Records of the General Assembly, Sixth Session, Second Committee*, 163rd meeting, para. 16.

to be important to be carried into effect. The establishment of the Special Fund would therefore only complement the work of the technical assistance organs. The activities of these institutions, though separate, would be linked and would have to be carried on side by side.

#### THE SPECIAL FUND AS A SINGLE ELEMENT IN AN OVER-ALL PLAN

Thus the Special Fund answers an institutional and economic need. It is necessary because there is no agency in the United Nations framework whose task it is to finance non-self-liquidating investment in the economic and social infrastructure by means of "non-commercial" public capital. What is actually needed is that we should be able to concentrate on those projects which are of the most importance for economic development, a form of financial assistance that is not subject to the criterion of profitability, or even of solvency viewed from the governmental angle. So far from supplanting private capital or duplicating the work of existing international agencies, the Fund will on the contrary represent a powerful form of assistance, since the setting up of the infrastructure will increasingly multiply opportunities for profitable investment and will hasten the day when expansion can be financed exclusively by commercial means.

In view of the magnitude of the task of economic development, it is obvious that the establishment of the Special Fund cannot of itself resolve all the existing difficulties. All other means must also be used, and all possible action taken to co-ordinate efforts in the field of international financing.

One government's reply to the Secretary-General's note on the establishment of the Special Fund laid particular stress on this aspect of the problem:

"The present emphasis on the special fund should not be allowed to obscure the other aspects, but should on the contrary bring out the complementary character of all methods of financial assistance, because the fund will be of real value only if it serves

to *initiate* or *supplement* economic projects which are self-liquidating in the true sense of the term, projects which, in other words, are highly productive.

"In many areas of the world the special fund alone could not provide complete financing that would in every case ensure the development of an entire region. It would, however, perform a useful function if it could be limited to basic investment or to social investment complementary to industrial development.

"It therefore appears that the fund, at least as at present conceived, cannot be separated from the other elements and that its functions and powers must accordingly be precisely defined so that it will be a truly specialized institution and will not duplicate other methods of finance that it may be expedient to develop, promote and guarantee by joint agreement" (A/2646, pp. 5-6).

I had an opportunity to appreciate the pertinence of these observations on travelling through an under-developed area in which the government is making great efforts to improve the economic and social infrastructure. A programme of land reform has been carried out, with the effect of handing over to peasant farmers land which only a few years before had formed enormous latifundia. A campaign has been launched against malaria, which previously forced the peasants to live on the high land, obliging them to make a long journey every day. Roads, irrigation canals, houses, schools, experimental stations, and hospitals have been built. At the stage of development it has now reached, what the country needs to enable it to continue its development are the other methods of financing. Thanks to the development works which have been carried out, many opportunities for profitable investment do in fact exist, and the industrialization of this area would ensure both a high level of employment and an improvement in the balance of payments. Side by side with the Special Fund, therefore, private capital and other financial agencies must be given the opportunity of playing their full part.

## 6. All possible means must be used

#### PRIVATE CAPITAL

The prospects for private capital investment by industrial countries in the under-developed countries at present appear rather unfavourable. This fact has been exhaustively discussed in recent economic literature, including United Nations publications. The report on the foreign economic policy of the United States submitted in 1950 by the Gray Committee, the report entitled *Partners in Progress* produced by the Rockefeller Committee in 1951 and the very recent report by the Secretary-General of the United Nations<sup>28</sup> have all stressed these unfavourable prospects.

Among the various reasons adduced to explain this state of affairs, it is often pointed out that private capital is able to obtain better return in its country of origin, and that it runs risks in under-developed countries, where the political situation is sometimes uncertain.

The flow of long-term capital from private sources to under-developed countries is at present markedly inadequate. The investment into which it is directed is not always of a type answering the fundamental needs of the country. Its geographical distribution is also unsatisfactory; for example, capital investment is particularly small in the politically independent areas of Asia, although a third of the world's population is concentrated in that region.

It is therefore essential that all possible steps should be taken to create a climate favourable to private capital; only then will it be attracted to investment in the under-developed countries. If the factors militating against the export of private capital could be removed, there would undoubtedly be great investment opportunities in these countries, and these opportunities would be still further multiplied by the development works carried out. Bilateral negotiations and agreements might also help to restore the confidence of private investors. Finally, consideration should be given to the setting up of insurance machinery inside

<sup>28</sup> See *The International Flow of Private Capital, 1946-1952*, United Nations publication, Sales No.: 1954.II.D.1.

the capital-exporting countries, on the model of what has been done in the United States, and perhaps to the establishment of an international *del credere* system.

#### THE INTERNATIONAL BANK

Only the United States and Canada have consented to the unrestricted use of the 18 per cent of their quotas of the Bank's capital subscribed in local currency. The other industrialized countries, especially those of Western Europe, have only authorized the use of a much smaller part of their quotas, and that subject to certain conditions. In the aggregate, although the Bank's released capital amounted on 30 June 1954 to \$US 1,826,200,000, less than half of this sum, namely \$US 901,900,000, was in fact available for the granting of loans.

This state of affairs limits the Bank's resources. In particular, the fact that the quotas expressed in European currencies have not been released makes it more difficult for the under-developed countries to contract loans in more easily repayable currencies.

#### THE INTERNATIONAL FINANCE CORPORATION

The establishment of an International Finance Corporation has been proposed precisely in order to funnel private capital into the under-developed countries and to offset the International Bank's limitations. Such a corporation would be able to advise investors of remunerative investments, but in addition—what is more important—it could itself take up shares in business undertakings. In this way it would encourage capitalists to carry out projects which they are at present reluctant to undertake, not so much because of lack of capital as because of a lack of confidence; for the existence of the Corporation and its participation in the projects would guarantee foreign capital against any arbitrary action. Lastly, the International Finance Corporation would also complement the activities of the International Bank by arranging capitalization in the form of shares and by granting loans to private enterprises not backed by government guarantee.

#### COMMODITY AGREEMENTS

Any international action that may be taken in the financial sphere for the benefit of the under-developed countries will be truly effective only if it is accompanied by a parallel effort to ensure greater stability of prices of and trade in the primary products. A large part of the foreign exchange at the disposal of the poorer countries is obtained from the export of primary commodities; for many of these countries, one or two such commodities account for 50 per cent of their total exports.

The Interim Co-ordinating Committee for International Commodity Arrangements, an agency set up by

the Economic and Social Council, has made studies of primary products which have been of assistance in the preparation of agreements on wheat, tin and sugar. The Committee on Commodity Problems of the Food and Agriculture Organization studies problems relating to agricultural products. At its eighteenth session, the Economic and Social Council confirmed a general decision which it had taken earlier in its resolution 557 F (XVIII) by setting up a Commission on International Commodity Trade, the members of which will be appointed at the end of 1954. This Commission will take account of any parallel action on primary commodities which may be taken under the General Agreement on Tariffs and Trade. Thus the United Nations is making every effort to reduce the fluctuations in the international markets for primary commodities—in particular by the conclusion of inter-governmental agreements. The importance of this work should be emphasized at this point; it should be continued and expanded.

#### THE TASK IS AN ENORMOUS AND COMPLEX ONE

All these efforts should form part of a co-ordinated plan, and the United Nations deserves tribute for having conceived the problem in that way.

Thus, at about the same time as I was given the task of studying the possibility of setting up a special fund, the General Assembly instructed the International Bank to continue its study of the creation of an International Finance Corporation,<sup>29</sup> and the United Nations Secretariat to examine the flow of private capital to under-developed countries<sup>30</sup> and to study trade in primary commodities in relation to economic development.<sup>31</sup>

The task to be performed is an enormous and complex one. That is why I have laid so much emphasis in this chapter on the poverty that exists in the under-developed countries, the need to combat it and the ways in which it could be remedied.

If this humanitarian task is to be accomplished we must all be convinced of its necessity, and governments, which will have to take the requisite financial action, must be supported by a public aware of the magnitude of the problem of poverty and conscious of its moral, political and economic responsibilities.

Only then will it be possible, within the framework of the United Nations Charter, to carry out this task in a spirit of solidarity, which is a guarantee of world peace.

<sup>29</sup> See document E/2616 (*Second Report of the International Bank for Reconstruction and Development on the question of creating an International Finance Corporation*).

<sup>30</sup> See the *International Flow of Private Capital, 1946-1952*, United Nations publication, Sales No.: 1954.II.D.1.

<sup>31</sup> See *Commodity Trade and Economic Development*, United Nations publication, Sales No.: 1954.II.B.1.

## Chapter II

### HOW THE IDEA OF A SPECIAL FUND DEVELOPED

The United Nations organs which deal with economic problems have from the outset paid great attention to the financing of the development of under-developed countries. The many studies they devoted to this problem gradually brought out the importance of the following facts, which formed the basis for the proposal for the Special Fund: the shortage of private capital to finance the economic development of the under-developed countries, and the need to prepare the necessary economic and social infrastructure by carrying out low-yielding or non-self-liquidating projects and by financing them out of public capital in the form of low-interest loans or government grants.

In 1946, the Economic and Employment Commission noted the importance to economic expansion of executing projects that were not immediately self-liquidating. That idea was subsequently taken up and emphasized by other United Nations organs.

The representatives of the under-developed countries have often expressed the view that more flexible conditions should be attached to the loans granted to them, particularly by granting longer terms for repayment. This view was reflected in the report submitted in 1947 by the Sub-Commission on Economic Development.

During the course of its third session the General Assembly adopted on 4 December 1948 resolution 198 (III) in which it expressed the hope that the International Bank for Reconstruction and Development would take immediate steps to adopt all reasonable measures to facilitate the early realization of development loans, particularly those in areas economically under-developed.

Two years later, at its fifth session, the General Assembly in resolution 400 (V) expressed the view that "the volume of private capital which is currently flowing into under-developed countries cannot meet the financial needs of the economic development of the under-developed countries" and that "those needs cannot be met without an increased flow of international public funds".

In 1951, Mr. Black, the President of the International Bank, in examining the respective merits of long-term, low-interest loans and of grants, drew attention in the Economic and Social Council and in the General Assembly to the advisability of encouraging certain basic investments in the under-developed countries through government grants.<sup>1</sup>

The idea of establishing a special fund for financing economic development took shape during the third session of the Sub-Commission on Economic Development, held in March-April 1949. The Sub-Commission's Chairman, Mr. V. K. R. V. Rao, proposed that an international agency should be set up, entitled the United

Nations Economic Development Administration or "UNEDA".<sup>2</sup> At its fourth session in May 1949 the Economic and Employment Commission considered, however, that it was unnecessary to set up a new international financing agency.

The report of the group of experts on *National and International Measures for Full Employment* submitted in 1949 contained a proposal for the establishment within the International Bank of a separate department responsible for raising funds and making loans to governments for developmental purposes.<sup>3</sup> The experts emphasized, however, that the operations of this department should be entirely distinct from the Bank's other activities, in the sense that it should have no access to the Bank's capital or other resources. When this proposal was submitted at the eleventh session of the Economic and Social Council in the summer of 1950, the Council did not think it opportune to take action on it.

The report published in 1951 by another group of experts appointed by the Secretary General to study "measures for the economic development of under-developed countries" recommended the establishment of an "International Development Authority" to "assist the under-developed countries in preparing, co-ordinating and implementing their programmes of economic development; to distribute to under-developed countries grants-in-aid for specific purposes; to verify the proper utilization of such grants" etc.<sup>4</sup>

The proposal was examined at the thirteenth session of the Economic and Social Council (1951) held under the presidency of Mr. Hernán Santa Cruz, who personally endorsed the idea, and it was at this session that the groundwork for the plan to set up a special fund for economic development was prepared.

At its sixth session in 1951-1952, the General Assembly, guided by this work and by the above-mentioned reports, adopted resolution 520 A (VI) in which it requested the Economic and Social Council "to submit to the General Assembly at its seventh regular session a detailed plan for establishing, as soon as circumstances permit, a special fund for grants-in-aid and for low-interest, long-term loans to under-developed countries for the purpose of helping them, at their request, to accelerate their economic development and to finance non-self-liquidating projects which are basic to their economic development". The

<sup>2</sup> See *Official Records of the Economic and Social Council, Ninth Session, Supplement No. 11 B*, pp. 22-24.

<sup>3</sup> See *National and International Measures for Full Employment—Report by a Group of Experts appointed by the Secretary-General*, United Nations publication, Sales No.: 1949.II.A.3, para. 195.

<sup>4</sup> See *Measures for the Economic Development of Under-Developed Countries—Report by a Group of Experts appointed by the Secretary-General of the United Nations*, United Nations publication, Sales No.: 1951.II.B.2, p. 95, Recommendation 14.

<sup>1</sup> See *Official Records of the General Assembly, Sixth Session, Supplement No. 3*, p. 60.

Economic and Social Council was further requested to prepare a series of recommendations on the way in which the fund should be set up.

At its fourteenth session in the summer of 1952, the Economic and Social Council responded to that request by establishing a committee of nine members to prepare a detailed plan for the operation of an international fund for grants-in-aid and for low-interest, long-term loans.

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At the same time the entire question was studied by the United States Government. The "Gray Report" favoured a policy of assisting under-developed countries by means of grants. In particular, the report contains the following recommendation: "While the major instruments for the external financing of development on a continuing basis should be private and public investment, for the next few years there is also need for public grants for development . . . The extension of aid in the form of grants instead of loans may increase productivity in a recipient country by considerably more than would result merely from the amount of capital involved in repayment."<sup>5</sup>

On 20 January 1949, President Truman submitted his "Point Four" to world public opinion: "More than half the people of the world are living in conditions approaching misery. Their food is inadequate. They are victims of disease. Their economic life is primitive and stagnant. Their poverty is a handicap and a threat both to them and to more prosperous areas . . . All countries, including our own, will greatly benefit from a constructive programme for the better use of the world's human and natural resources. Experience shows that our commerce with other countries expands as they progress industrially and economically."

In March 1951 another report submitted to President Truman by the International Development Advisory Board recommended the speedy creation of a new International Development Authority in which all nations would be invited to participate and the purpose of which would be to take part in the financing of certain public works which, although essential to the under-developed countries, could not be financed in the normal way on the international market. The promoters of this scheme wanted the capital for this agency to be raised by subscription, the United States and the other nations each making contributions in its national currency, in proportions to be subsequently determined.<sup>6</sup>

On 16 April 1953, President Eisenhower stated: "This Government is ready to ask its people to join with all nations in devoting a substantial percentage of any savings achieved by real disarmament to a fund for world aid and reconstruction. The purposes of this great work would be: to help other peoples to develop the undeveloped areas of the world, to stimulate profitable and fair world trade, to assist all peoples to know the blessings of productive freedom. The monuments of this new kind of war would be these: roads and schools, hospitals and homes, food and health." By these and still other measures his Government was prepared to make the United Nations an

effective organization capable of safeguarding peace and ensuring the safety of all nations.

Mr. Baker, United States representative at the sixteenth session of the Economic and Social Council, referred to the text of this speech by the President when he proposed that the following declaration should be adopted:<sup>7</sup>

"We, the governments of the States Members of the United Nations, in order to promote higher standards of living and conditions of economic and social progress and development, stand ready to ask our peoples, when sufficient progress has been made in internationally-supervised world-wide disarmament, to devote a portion of the savings achieved through such disarmament to an international fund, within the framework of the United Nations, to assist development and reconstruction in under-developed countries."

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This proposal by the United States was adopted by the Economic and Social Council and submitted to the eighth session of the General Assembly which incorporated the text of the declaration in its resolution 724 A (VIII), adopted unanimously, with six abstentions, on 7 December 1953.

In this resolution the text of the declaration is preceded by a preamble in which the General Assembly states that it is desirous "of strengthening the United Nations in its mission of guarding the peace and security of all peoples and of promoting higher standards of living and conditions of economic and social progress and development in under-developed countries" and looks forward "to the time when sufficient progress in internationally-supervised world-wide disarmament will make it propitious to devote additional resources to assist development and reconstruction, particularly in the under-developed countries".

Although the effect of this declaration is to link the establishment of the Special Fund to the problem of universal disarmament, which considerably reduces its scope, at least in the immediate future, it is nonetheless true that the declaration marks an important step towards making the fund a reality. It is a solemn undertaking assumed by all States Members of the United Nations to lend their financial support to the new organization.

During the discussions in the Second Committee which preceded the General Assembly's adoption of the declaration, the representatives of the under-developed countries urged that the industrialized countries should waive the essential pre-condition of internationally-supervised disarmament and should agree to establish an international fund without further delay.

With this situation in mind, the General Assembly in resolution 724 B (VIII) entrusted me with the task, the terms of which are set out in the first part of this report. It also expressed the hope that: "conditions favourable to the establishment of an international fund will be created in the near future and that savings from internationally-supervised world-wide disarmament will provide additional means for financing the economic development of under developed countries and will further the aims and objectives of such a fund".

<sup>7</sup> See *Official Records of the Economic and Social Council, Sixteenth Session, 725th meeting.*

<sup>5</sup> Gordon Gray, *Report to the President on Foreign Economic Policies*, Washington, D. C., 1950, pp. 66-67.

<sup>6</sup> United States International Development Advisory Board, *Partners in Progress; Report to President Truman*, Simon and Schuster, New York, 1951.

### Chapter III

## THE MORAL AND MATERIAL SUPPORT WHICH MAY BE EXPECTED FROM GOVERNMENTS FOR THE SPECIAL FUND

Following General Assembly resolution 724 B (VIII), governments have expressed themselves almost unanimously in favour of establishing an international fund for financing non-self-liquidating or low-yield investments which cannot be financed in the usual way.

With respect to material support, the General Assembly resolution makes the establishment of the Fund contingent upon sufficient progress in internationally-supervised world-wide disarmament.

During the debates in the Second Committee of the General Assembly, the representatives of the industrialized countries for the most part insisted on that precondition, while the majority of the representatives of the under-developed countries wanted the fund to be set up immediately, without waiting for internationally supervised world-wide disarmament. It is this divergence of views that accounts for the fact that the replies from governments may now be divided into three groups.

One group of replies, from the under-developed countries, generally confirms the position taken by those countries in the General Assembly.

For example, the Yugoslav Government expresses the view that "the present economic situation, particularly in the highly developed countries, confirms the opinion that real possibilities do exist for the collecting of means necessary for the beginning of the financial operations of the fund" (A/2646, p. 66).

The Government of Chile shows equally great interest; it considers that "the preliminary formalities and empirical studies have been completed. The next step should consequently be the preparation and drafting of the statute of the special fund, with a view to the immediate initiation of consultations with the governments concerned with regard to the formation of its initial capital" (A/2646, p. 34).

The Government of Honduras already suggests that its contribution should be between 65,000 and 165,000 *lempiras* depending on whether it is to be based on the Honduran contribution to the International Monetary Fund or to the International Bank for Reconstruction and Development.

Another group of replies, all of them from industrialized countries, either maintains as an essential condition that sufficient progress must be achieved in internationally supervised world-wide disarmament before any contributions can be made to the financing of an international fund, or takes the even more reserved position that, at least in present circumstances, the establishment of a new international organization would not be desirable.

That is the position of the Federal Republic of Germany, Canada, the United States of America, New Zealand, the United Kingdom, Sweden and Switzerland.

Reply of the Federal Republic of Germany:

"The Federal Government regrets that for the time being it is not in a position to make contributions of a material nature to a new special fund for economic development beyond its contribution to the Expanded Programme of Technical Assistance" (A/2646/Add.1, p. 8).

Reply of Canada:

"... Until circumstances, including progress in disarmament, are such that these countries are able to provide additional resources on a scale which would make the operations of an international development fund worthwhile, the Canadian Government considers that it would be inadvisable to set up such a fund, and would not itself be prepared to contribute thereto" (A/2646, p. 28).

Reply of the United States of America:

"We believe that the time is not propitious for the establishment of such a fund. International tensions make it necessary for the nations of the free world to apply large resources to the requirements of defence. As long as this situation persists, competing claims on public funds for other purposes, even though urgent, must be examined with the utmost caution. An international fund could not be successfully operated without considerable resources from many nations and to secure these would not, under present circumstances, appear feasible" (A/2646/Add.1, p. 13).

Reply of New Zealand:

"For these reasons, the New Zealand Government are unable at the present time to enter into any commitment to contribute to the special fund should it be established" (A/2646, p. 49).

Reply of the United Kingdom:

"The attitude of the United Kingdom Government has frequently been made clear in debates both at the Economic and Social Council and the General Assembly of the United Nations. Broadly speaking, Her Majesty's Government accept and support the principle of an international fund within the framework of the United Nations, but are not at this stage in a position to subscribe to it financially. Further, since they understand that no other major potential contributing Power is yet in a position or prepared to contribute, they have grave doubts about the desirability of taking any immediate practical steps towards the establishment of a fund" (A/2646, p. 56).

Reply of Sweden:

"As regards the project of a special fund in accordance with the recommendation of the Committee

of Nine, Sweden has from the beginning taken a rather reserved attitude in regard of the fact that the creation of such a fund would mean a new international organization involving still higher overhead costs and entailing risks of overlapping and duplication of effort. Already the difficulties of financing the present technical assistance programme have necessitated the keeping of this programme on an essentially lower level than is corresponding to the needs and wishes of the under-developed countries. The Swedish Government still have certain misgivings as to the usefulness of creating the proposed special fund" (A/2646, p. 52).

#### Reply of Switzerland:

"In the opinion of the Swiss authorities, it would be preferable at the present for Member States to concentrate on enhancing the effectiveness of the Expanded Programme rather than to undertake any new tasks . . . Indeed, the financial difficulties now confronting the Expanded Programme of Technical Assistance and other international organizations are well known. The wisdom of establishing a new international body at this stage may therefore be questioned" (A/2646, p. 54).

Lastly, there is a third group of replies, also from industrialized nations. They express the view that it would be regrettable to make the creation of a special fund contingent upon a general reduction in armaments expenditure. They declare themselves ready to give their material support to the Fund; some of them say so specifically in their replies, while others make their participation and the size of their contribution dependent on the fulfilment of a number of conditions. This group comprises Denmark, Italy, Norway and the Netherlands, in the first category, and Belgium, France, Japan and Luxembourg, in the second.

#### Reply of Denmark:

"The Danish Government is of the opinion that the establishment of the special fund should not be postponed. It is neither found necessary nor desirable to await a general decline in defence expenditure. The proposed sum of \$250 million represents only an infinitesimal fraction of the total annual defence expenditure" (A/2646, p. 36).

#### Reply of Italy:

"The Italian Government feels that the reservation expressed in the Economic and Social Council resolution that the establishment of the special fund should be postponed to such time 'as circumstances permit' and 'when sufficient progress has been made in world-wide disarmament' considerably reduces the practical scope of the proposal. It would be better if all the countries, whether Members of the United Nations or not, which have shown themselves favourable to the establishment of the special fund should elaborate a joint plan of practical action which could be implemented without delay" (A/2646, pp. 42-43).

#### Reply of Norway:

"The Norwegian Government does not wish to make the establishment of the fund dependent upon the successful carrying out of disarmament plans, and it would not hesitate to make its financial contribution to the fund as soon as financial support from

the great Powers shall make the establishment of the fund practically feasible" (A/2646/Add.1, p. 16).

#### Reply of the Netherlands:

"The Netherlands Government are aware of the fact that, for the time being, the costs of armament for the maintenance of international peace and security might limit the extent of such a financing institution. They feel nevertheless that, as the economic development of under-developed countries is in itself an urgent problem and as this development as such will contribute to international peace and security, a special fund should be established as soon as the conditions mentioned in the report of the Committee of Nine are present" (A/2646, p. 46).

#### Reply of Belgium:

"Since the Government firmly adheres to the principle, as proposed by the experts, that contributions should be of a 'voluntary' nature, Belgium's material contribution would be determined with regard to the following factors, the importance of which has been amply justified in the note . . . (3) The trend of expenditure on armaments (Belgium supported General Assembly resolution 724 A (VIII), according to which a portion of the savings achieved through disarmament would be devoted to assist the under-developed countries in the manner envisaged by that resolution)" (A/2646, pp. 22-23).

#### Reply of France:

"Consequently, the French Government can only approve the wider application of principles which it itself applies in the under-developed territories under its administration. It must, however, emphasize that, if the States Members of the United Nations consider it possible to establish a special United Nations fund for economic development, its ability to contribute to it would be limited for the above-mentioned reasons. Thus France, anxious to take an active part in a scheme the importance of which it fully appreciates, is prepared, when the time comes, to give most favourable consideration, in the light of its own position, to the possibility of contributing to the activities of this new organization" (A/2646/Add.1, p. 6).

#### Reply of Japan:

"In the event the proposed programme is finalized, the Japanese Government will be ready to consider favourably giving its material support to the fund to such an extent as its financial circumstances would permit" (A/2646, p. 44).

#### Reply of Luxembourg:

"The amount of any contribution will depend on . . . (b) the reduction of armaments expenditure, if the international situation permits" (A/2646/Add.2, p. 26).

It is important to emphasize that even the countries in the third group are for the most part prepared to participate in the Special Fund only to the extent that it is established on a realistic basis, that is, if a sufficient number of States contribute to it, among them the principal industrialized countries, one of which must be the United States.

## Chapter IV

### COMMENTS ON THE REPORT OF THE COMMITTEE OF NINE<sup>1</sup>

All governments have praised the work of the Committee of Nine and many replies comment on their report.<sup>1</sup> Some governments, however, state that their comments are not final, because they feel that it is premature at this stage to describe and define in minute

detail the organization and administration of a prospective special fund.

I do not intend in this chapter to duplicate the replies sent by governments or the Secretariat's summary of them, but simply to bring out the most important of the considerations which governments have put forward.

#### 1. Nature of the contributions

The report of the Committee of Nine considers the questions of the nature, frequency and method of payment of States' contributions, and makes the following proposals:

States' contributions to the Special Fund's operational budget should be voluntary; they should take the form of pledges, and States should themselves decide the amount in accordance with their ability to contribute.

Governments should to that end take into consideration a certain number of criteria based on their economic strength and resources, bearing in mind the savings effected by a reduction in expenditure on armaments. Commitments separately assumed for the economic development of under-developed countries should also be taken into consideration.

Replenishment of the Fund should be studied at periodic conferences of participating governments. At these meetings, governments would consider the Fund's budget and decide the amount of their contributions for the following year or two years, in the light of the operations of the Fund, the use made by the Fund of their previous contributions and their own economic position at the time.

Contributions should be paid in local currencies, to be convertible into other currencies only with the permission of the contributing countries.

Certain governments think it very important that States should themselves decide the amount of their contributions, while others think that the decision should be left to the United Nations, which would take into account the national income of each participating country. According to the latter governments, contributions could be fixed in accordance with the criteria at present used to calculate the shares of Member States in the administrative costs of the United Nations, the International Monetary Fund and the International Bank for Reconstruction and Development; those contributions are in fact fixed according to the economic strength of the Member State.

In the course of my conversations in the various capitals I was often asked to indicate approximately

what proportion of the total \$US250 million—the amount which the Nine considered essential for the Fund to begin operations—would be due from the country I happened to be visiting. I was unable to give an answer because of the position already taken up in that respect by the Nine. In order to meet these inquiries and without prejudice to the voluntary character of contributions, it might be useful to work out the amounts on the basis of States' contributions to the administrative costs of the United Nations, to the International Monetary Fund and to the International Bank, simply in order to give some idea of the size of the figure. To make this calculation possible, a table has been attached to this report giving the contributions of States to the various bodies mentioned. Thus each government will be able to judge the approximate size of the sum it might be called on to supply if the Fund were set up with an initial \$US250 million as proposed by the Nine.

Many governments accept the principle of a voluntary and renewable contribution but stress the need to ensure continuity and regularity in the payment of contributions. When undertaking to pay a first annual contribution, States would give an assurance that they are prepared in principle to continue to give the Fund financial support for a certain number of years.

One government has observed that the method of financing recommended by the experts—annual contributions or pledges to contribute, renewable from year to year—presents considerable difficulties as a method of financing economic development, which is essentially a long-term process. It believes that under-developed countries would be reluctant to undertake the tremendous tasks necessary for their development if they were not sure that they could obtain sufficient funds to complete the work. The Fund itself could only operate within the limits of the short-term pledges in hand and that would necessarily limit its activity.

On the whole, governments welcome the proposal that contributions should be paid in local currencies, convertible into other currencies only with the permission of the contributing country. Some governments consider that the advantages of this system would encourage all States to participate in the Fund and most countries make their agreement to participate in the Fund conditional upon the application of this recommenda-

<sup>1</sup> *Report on a Special United Nations Fund for Economic Development*, United Nations publication, Sales No.: 1953. II.B.1.

tion. One government, however, considers that it is too early yet to take up a position on this point because, when the time comes for the Fund to be set up, convertibility may be sufficiently wide-spread for States Members to make their contributions in freely convertible currencies, and that would greatly enhance the effectiveness of the Fund.

Some governments specially welcome the proposal that States should be permitted to limit the use of their

own contributions to the purchase of certain specified goods and services within their own territories; they suggest that States should be allowed to make their contributions in kind, for instance in the form of capital goods. They think it might even be possible to carry out definite programmes submitted by requesting countries so that the contributions in kind made by several different countries are co-ordinated through a plan in such a way as to make them complementary and to provide support for anti-cyclical policies.

## **2. Criteria for the consideration of requests made by governments of under-developed countries**

In general, governments are agreed that the Fund's resources should be allocated on the basis of a fair geographical distribution. They expect an international organization to bear in mind the needs of all its members and not to allow one region to benefit from all its resources. Some governments, however, think that to achieve its real purpose the Fund should take account, first and foremost, of the needs of the various countries and of the efforts they are themselves making in using their own resources.

One government does not share this view but thinks the Fund should allocate its resources in advance and solely in accordance with the principle of a fair geographical distribution.

Another government's reply draws attention to the kind of relationship which should be set up between the Fund and those States Members which are responsible for the international relations of Non-Self-Governing Territories, should these Territories desire the Fund's assistance.

### **POLITICAL CRITERIA**

On the whole, governments approve of a proposal that in distributing its resources the Fund should not be influenced by considerations relating to the requesting country's political system or the religion or racial origin of its inhabitants. However, as one reply points out, the Fund should not give assistance to a country whose political situation is so unstable that the execution of projects which the Fund has been asked to finance might in fact be jeopardized. Similarly, the Fund should not give assistance to a country which had failed in its

obligations towards the United Nations or a State Member thereof.

### **ECONOMIC CRITERIA**

One government considers that recipient countries should themselves provide an appropriate part of the money needed to carry out the plans for which they are requesting the Fund's assistance. Such a contribution would be a tangible proof that the recipient country regarded the projects as urgent and essential to its development.

Another government approves the proposal that recipient countries should be required, within their general policy, to apply such sound financial and monetary measures as are necessary, notably, to combat inflationary tendencies; it would also like the Fund to have the authority necessary to prevent recipient countries from resorting to extreme protectionist measures.

### **FINANCIAL CRITERIA**

One government agrees with the proposal that the requesting country should be required to prove that other methods of financing are inappropriate and that it cannot obtain foreign capital. The same government, however, considers that that requirement should not be pressed so far as to impose on requesting countries undue delays or undue burden of proof.

Another government states that the assistance of the Fund should not be granted to States which cannot secure capital because of defects in their fiscal or exchange control systems or because of the unfavourable treatment they accord private capital invested in their territories.

## **3. Loans and grants**

A number of governments declare that there are certain advantages in furnishing international assistance in the form of long-term or low-interest loans rather than grants. Firstly, the obligation to repay a loan encourages the debtor to administer by sound methods the investments financed by means of the borrowed funds; and secondly, periodical repayments ensure the renewal of the principal, which can then be usefully put to work again for other purposes. Experience shows, too, that the relations between borrowers and lenders are usually better than those between donors and recipients.

Other countries, however, think that it might be difficult to formulate principles by which to decide when assistance should be given to a country in the form of a grant rather than a loan; and it would be even more difficult to judge how far to apply the provisions for flexibility proposed by the experts to the terms normally laid down for loans by financial agencies such as the International Bank. The report suggests that the terms of a loan might be renegotiated wherever it is established that the obligation to repay has become too heavy a burden on the debtor. In this case, one government notes, the distinction between loans and grants may well

disappear; and the administrative costs of such a procedure of supervision and review may well prove disproportionately large in relation to the advantages accruing from the repayment of the capital sum and the receipt of a small amount of interest.

If loans are granted under such liberal conditions and procedures, it is observed, it is probable that after some time many loans will transform themselves into grants. Some countries might then be tempted to accept unduly large obligations, far in excess of their capacity to repay; and that, in the long run, would not only injure their credit with other financial agencies but would also, to take a more general view, tend to undermine respect for obligations relating to international loans.

The following suggestions emerge from the replies of governments on this point:

(a) That the granting of loans should be left to the International Bank, and that the Fund's operations should be limited to making grants. Such recipient countries as are capable of repaying the sums received

should be encouraged to do so; this would to some extent replenish the Fund's resources.

(b) That if the Fund is also authorized to make long-term and low-interest loans, it should make a grant whenever there is any doubt of the type of assistance to be given. Loans would be granted only in clearly-defined cases, and if the applicant country is unable to obtain the necessary funds on the capital market or from the International Bank. Once the terms of the loan are fixed—rates of interest, redemption schedules, periods of grace and currency transfers—they should be changed only in very exceptional circumstances.

(c) That if, in accordance with the generally expressed desire, the activities of the Fund are closely co-ordinated with those of the Bank, applicant countries might finance a particular project or development programme by obtaining a loan from the Bank for part of the sum and a grant from the Fund for the remainder. The proportion of grant to loan would be worked out very carefully in each case, in relation to the debtor's financial capacity.

#### 4. Organization of the Special Fund

Governments urge almost unanimously that the establishment of a new international bureaucracy should be avoided.

One government proposes that the work of the Expanded Programme of Technical Assistance should be gradually enlarged to include the work of allocating funds.

Several governments suggest that consideration should be given to the possibility of assigning the management of the Fund to the International Bank for Reconstruction and Development. They point out that the Bank is a non-political body familiar with economic conditions and the needs of possible recipients, and is in a position to bring to the Fund the benefit of its vast experience.

Governments which approved of the principle of setting up a new agency nevertheless stress the need for co-ordinating its activities very closely with those of existing bodies, in particular the Technical Assistance Administration and the International Bank. In this connexion, one government stresses the desirability of making the greatest possible use of the services of existing United Nations organs—for instance, for the examination of requests for financial assistance and for preliminary investigations. Such a procedure would help make the Fund an integral part of the system worked out by the United Nations for the economic development of the under-developed countries.

##### MEMBERS AND NON-MEMBERS OF THE UNITED NATIONS

One government proposes, in order to prevent any political complications in the Fund's General Council, that membership should be open to any government which undertakes to abide by the principles and regulations attaching thereto.

Another government is doubtful whether it would be advisable to admit to membership of the Fund countries not participating either in the United Nations or in one of the specialized agencies. It believes that a State

should have absolutely no claim on assistance from the international Fund if it has not paid its contribution to the Fund's administrative budget and fulfilled its obligations with regard to the operational budget.

One reply expresses the hope that Members and non-Members of the United Nations will be equitably represented in the Fund's executive and administrative organs.

##### CONTRIBUTING AND RECIPIENT MEMBERS

The Committee of Nine recommends in its report that contributing and recipient countries should have an equal number of votes on the Executive Board, and that in the event of a tie the Director-General should have the casting vote.

A number of industrialized countries, the potential contributors, strongly criticize this proposal. One government points out that this procedure has not yet been tested internationally, that it is not calculated to promote the smooth functioning of the agency and that it might even dissuade some countries from contributing. This view is shared by another government, which believes that contributing countries should be able to pass on questions of principle, and to express their views on the distribution of resources, with a weight corresponding to the size of their contributions; that if they are not given some guarantee of this kind, contributing countries may well rapidly lose interest in the Fund.

Finally, one government expressly states that if the plan put forward by the Committee is not modified in this respect, it will be quite unable to convince its public that the plan justifies the sacrifices which would be required of it. The provisions proposed for contributions by countries which are principally recipients—contributions which, it is suggested, should be purely symbolic—should not in its view give these countries powers out of proportion to the size of their contributions.

## PUBLIC AND PRIVATE CONTRIBUTIONS

The Committee of Nine expresses the hope that the Fund's administrators will be authorized to accept, in addition to contributions by States, contributions from non-governmental or private sources. Indeed, appeals might be made for non-governmental contributions, and such contributions might be encouraged by governments by means of tax exemptions.

One government sees no objection to this suggestion, but observes that no further mention is made of this type of contribution in the report of the Committee of

Nine. It assumes from this silence that private contributors would possess no statutory powers, but believes that the Fund's statutes should state this explicitly.

Another government sees no fundamental objection to private individuals contributing to the Fund, but feels it would have difficulty in granting such contributors tax exemption on the taxable portion of their income or profits, since such a concession would be equivalent to an additional contribution at State expense—a contribution which would be the greater the higher the rate of taxation.

## Chapter V

### CONCLUSIONS

In concluding the present report, I am compelled to state that the international situation has not developed as favourably as the General Assembly had hoped. Internationally supervised world-wide disarmament is unfortunately not yet an accomplished fact. Major industrial Powers such as the Union of Soviet Socialist Republics, the United Kingdom and the United States of America appear disinclined, at least at the present juncture, to lend their financial support to the establishment of an international fund for grants-in-aid and for low-interest long-term loans, while most of the advanced countries which I have classified in the third group contemplate taking part in the Special Fund only if it is supported by the leading industrialized Powers, and more particularly by the United States.

Accordingly, I can only conclude that the essential conditions for the establishment of such a fund in the near future do not at present exist.

Yet in my statement to the eighteenth session of the Economic and Social Council on 19 July 1954, I said that I viewed the future with some optimism. That optimism is based on my impression that the public in the industrialized countries have for some time been becoming increasingly aware that the economic development of the under-developed countries presents an urgent problem, whose solution would contribute to a relaxation of international tension and the attainment of lasting peace.

As chapter III of this report indicates, this idea is already clearly stated in a number of replies from governments. I have reason to believe that other governments are equally convinced of its truth, but would prefer to let a little more time elapse, in order to ensure that these views are shared by their peoples.

This explains the emphasis I have laid in several parts of this report on the importance of informing world public opinion of the poverty prevailing in the under-developed countries and of the urgent need to remedy this state of affairs.

During the eighteenth session of the Economic and Social Council, representatives of the principal world trade organizations stated that the millions of workers they represented would welcome any measures of assistance undertaken by their governments, were they but aware of the wretched plight of the under-developed countries. Similarly, the representative of a major industrialized Power suggested the publication of a document along the lines of a "White Paper" providing leading circles in the industrialized countries with the information needed. Lastly, the representative of another Power submitted a draft resolution proposing the widest possible international circulation of all data relating to the advisability and urgency of setting up the Special Fund.

The General Assembly might perhaps consider whether it might not be desirable to acquaint world public opinion with the problem created by living conditions in vast areas of the world. That task of in-

formation once fulfilled, governments would be in a better position to take whatever steps they deemed most suitable.

I have already pointed out in chapter IV of this report that the replies from governments stress the need to avoid creating a new "international bureaucracy" in setting up the fund. That was in fact the first remark made to me in each of my conversations. I was fortunately able to reply that the General Assembly had not overlooked that aspect of the problem and had requested the Secretariat to study the possibility of coordinating the activities of the Special Fund as closely as possible with those of the Technical Assistance Board, the Bank and other specialized agencies (E/2618). That assurance once given, the conversation made much more satisfactory progress.

I think it advisable to recall the General Assembly's attention to this aspect of the problem, whose importance should not be underestimated.

During its eighteenth session, which has just closed, the Economic and Social Council took note of the main points set forth in the present report and, after discussing them at length, unanimously adopted resolution 532 A (XVIII), the text of which is as follows:

*"The Economic and Social Council,*

*"Having examined the interim report submitted by Mr. Raymond Scheyven concerning the establishment of a Special United Nations Fund for Economic Development as well as the working paper by the Secretary-General,*

*"Noting that both the contents of the replies of Governments and the debates in the Council indicate an increasing moral, and an increased degree of material support for the establishment of a Special United Nations Fund for Economic Development,*

*"Considering that the balanced development of the world economy is a necessary condition for promoting such international relationships as are propitious for the maintenance of peace and world prosperity,*

*"Reaffirming that the economic development of the under-developed countries is of essential importance not only for them, but also for the industrialized countries,*

*"Bearing in mind that the present rate of development of the under-developed countries in general is unsatisfactory, and that the present world situation calls for accelerating the development of these countries,*

*"...*

*"2. Recommends that the General Assembly urge Governments to review their respective positions with respect to extending their material support to a Special United Nations Fund for Economic Development, in accordance with changes in the international situation and other relevant factors;*

*"..."*

## ANNEX

### Contributions of Member Countries to the United Nations, to the International Monetary Fund and to the International Bank for Reconstruction and Development (in percentages of total)

Country	United Nations	Fund	Bank	Country	United Nations	Fund	Bank
Afghanistan .....	0.08	—	—	Lebanon .....	0.05	0.05	0.05
Argentina .....	1.40	—	—	Liberia .....	0.04	—	—
Australia .....	1.75	2.29	2.21	Luxembourg .....	0.06	0.11	0.11
Austria .....	—	0.57	0.55	Mexico .....	0.75	1.03	0.72
Belgium .....	1.38	2.58	2.49	Netherlands .....	1.25	3.15	3.04
Bolivia .....	0.06	0.11	0.08	New Zealand .....	0.48	—	—
Brazil .....	1.40	1.72	1.16	Nicaragua .....	0.04	0.02	0.01
Burma .....	0.13	0.17	0.17	Norway .....	0.50	0.57	0.55
Byelorussian Soviet Socialist Republic .....	0.50	—	—	Pakistan .....	0.75	1.14	1.11
Canada .....	3.30	3.43	3.60	Panama .....	0.05	0.01	—
Ceylon .....	—	0.17	0.17	Paraguay .....	0.04	0.04	0.01
Chile .....	0.33	0.57	0.39	Peru .....	0.18	0.29	0.19
China .....	5.62	6.30	6.64	Philippines .....	0.45	0.17	0.17
Colombia .....	0.41	0.57	0.39	Poland .....	1.73	—	—
Costa Rica .....	0.04	0.06	0.02	Saudi Arabia .....	0.07	—	—
Cuba .....	0.34	0.57	0.39	Sweden .....	1.65	1.14	1.11
Czechoslovakia .....	0.06	1.43	1.38	Syria .....	0.08	0.07	0.07
Denmark .....	0.78	0.78	0.75	Thailand .....	0.18	0.14	0.14
Dominican Republic .....	0.05	0.06	0.02	Turkey .....	0.65	0.49	0.48
Ecuador .....	0.04	0.06	0.03	Ukrainian Soviet Socialist Republic .....	1.88	—	—
Egypt .....	0.47	0.69	0.59	Union of South Africa .....	0.78	1.14	1.11
El Salvador .....	0.05	—	—	Union of Soviet Socialist Republics .....	14.15	—	—
Ethiopia .....	0.10	0.07	0.03	United Kingdom of Great Britain and Northern Ireland ..	9.80	14.88	14.39
Finland .....	—	—	0.42	United States of America .....	33.33	31.48	35.13
France .....	5.75	6.00	5.81	Uruguay .....	0.18	0.17	0.12
Germany (Federal Republic) ..	—	3.78	3.65	Venezuela .....	0.39	0.17	0.12
Greece .....	0.21	0.46	0.28	Yemen .....	0.04	—	—
Guatemala .....	0.07	0.06	0.02	Yugoslavia .....	0.44	0.69	0.44
Haiti .....	0.04	—	—				
Honduras .....	0.04	0.03	0.01				
Iceland .....	0.04	0.01	0.01				
India .....	3.40	4.58	4.43				
Indonesia .....	0.60	—	—				
Iraq .....	0.12	0.09	0.07				
Iran .....	0.28	0.40	0.37				
Israel .....	0.17	—	—				
Italy .....	—	2.06	1.99				
Japan .....	—	2.86	2.77				
Jordan .....	—	0.03	0.03				
					100.00	100.00	100.00

<sup>a</sup> Less than 0.005 per cent.

Sources: United Nations: General Assembly resolution 765 (VIII). International Monetary Fund: *Annual Report—1953*, appendix IV. International Bank for Reconstruction and Development: *Eighth Annual Report—1952-1953*, appendix J.