

SECTION 7

THE TRANSFER OF RESOURCES

The role of resource transfers

104. Capital flows and transfers of technology are a major feature of international economic relations. They take place between countries at all levels of economic development. Developing countries have a particular interest in all forms of international transfer of resources - private investment, direct and portfolio; export credits and other lending on commercial and near-commercial terms (some of it through international agencies such as the IBRD and regional development banks); and technical and capital assistance in the form of grants or loans on concessionary terms.

105. This section concentrates mainly on official development assistance (ODA) provided in support of national development efforts and on concessionary terms. Such assistance is needed for countries where the returns from major investments are delayed or uncertain, and in any case should have the advantage of leaving the major part of the returns at the disposal of the recipient country.

The limited availability of ODA

106. Between 1963-65 and 1970-72, annual average disbursements of ODA from the developed market economy countries to developing countries and multilateral organisations, net of amortisation, increased only from \$6,720 million to \$7,150 million when measured at constant (1970) prices. There was then a sharp fall in 1973, as the purchasing power of ODA disbursements was seriously eroded by inflation, but preliminary figures suggest some recovery in 1974.

107. Thus, as the developed countries have become richer and have increased their economic strength, they have not made available a comparable increase in the net flow of ODA to developing countries. As a percentage of the total GNP of the developed, market economy countries, ODA has progressively declined from 0.51 per cent in 1963 to 0.33 per cent in 1972, 0.30 per cent in 1973, and 0.33 per cent again in 1974. The real volume of net ODA flow from the United States decreased sharply from around \$4,000 million in 1963 and 1964 (at 1970 prices) to around \$3,000 million in 1969-72. The annual net flow from Britain averaged \$544 million in 1964-67, \$468 million in 1968-72 (again in 1970 prices).

108. These figures are recorded net of amortisation payments, but not of the related payments of interest. Against \$9,400 million disbursements of ODA, net of amortisation, by the developed, market economy countries in 1973 (at current prices), reverse flows of interest amounted to \$680 million.

109. By comparison with the flows from the developed, market economy countries, those from the centrally planned economies have remained small in total, though they are important for some developing countries. On the other hand, in 1974 and 1975 petroleum-exporting countries have emerged as an important source of capital flows to developing countries, including flows on concessionary terms.

110. By contrast with ODA, net flows of private capital (including export credits as well as other loans and private investments) from the developed market economies to the developing countries have shown much greater buoyancy, rising from around 0.29 per cent of the GNP of the countries of origin in 1964-67 to around 0.36 per cent in 1968-73. However, the value of these flows to the recipient countries is reduced by the large reverse flow of profit remittances and interest payments, and is also offset by capital outflows from the developing countries themselves.

Lessons of experience

111. The effort of the international community to bridge the gap between rich and poor countries through resource transfer has so far yielded only limited results, and this experience should provide a number of important lessons for the future.

112. The first is that as long as developing countries depend predominantly on primary commodity exports, the gains from resource transfer may be substantially offset by falling and unstable earnings from commodity exports. Arrangements for the stabilisation of primary commodity markets are therefore a necessary condition for realising the fullest advantage from resource transfer.

113. The second is that the special infrastructural needs of the developing countries for major works such as water control will require a more massive transfer of resources than the present targets, which themselves have not been fulfilled, can hope to achieve.

114. The third is that assistance to industrial development has been an area of serious neglect. For example, there are only a few instances where assistance has been provided for the development of industries based on the utilisation of major raw materials of local origin. In this particular area, the centrally planned economies have followed more flexible policies.

115. The fourth arises from the voluntary nature of resource transfer, changing political considerations and short-term economic calculations on which most of it depends. This has given rise to a great deal of uncertainty in national planning.

116. The fifth has to do with private investment, particularly through transnational corporations. On the whole, the distribution of the benefits from this investment has not been in favour of the developing countries. This situation has given rise to justifiable demands by the developing countries for new arrangements for private resource transfer to the directly productive sectors.

117. Another lesson concerns the inflexible debt-service obligations, which have created serious problems for the balance of payments, particularly in times of shortfalls in export earnings.

118. Finally, the terms of aid and other conditions imposed on concessionary resource transfer have made the effective terms of aid much harder than the nominal terms would indicate. Hence, the untying of aid and the relaxation of other conditions imposed on such resource flows could substantially increase the benefit of aid to the recipient countries.

The need for an increased transfer

119. At present, many developing countries are in grave balance of payments difficulties because of increased prices of imported petroleum, food, fertilizers, capital equipment and other manufactures while prices and demand for the goods which they export have collapsed as a result of recession in the developed countries. Thus, a marked increase in the transfer of resources will be needed in order merely to sustain a minimum momentum of development in much of the world and even to maintain minimum conditions of life in many of the poorest countries. And, if the greatest part of this increased transfer is not provided on concessionary terms, the result will be increasingly widespread and acute debt servicing problems, which could threaten the maintenance of development in the future.

A new dimension in international assistance

120. Beyond this need for what is essentially a holding operation, to maintain the inadequate momentum so far achieved, we see a pressing need for an entirely new dimension in international cooperation for development. A major increase in the transfer of resources is needed:

- to finance infrastructural works on a scale which is not even envisaged at present: we have in mind such programmes as arrest of the southward movement of the Sahara Desert in the Sahel area, flood control and protection against typhoons in Bangladesh, rural electrification and provision of pure water supplies;
- for the establishment and maintenance of major regional and sub-regional centres of research and development;
- to support regional and inter-regional cooperation among developing countries;
- to ensure adequate food supplies, both by support for agricultural development and through food relief as needed.

121. External assistance must be complementary to national and multinational efforts at self-help and cooperation. In general, it is evident that the transfer of resources from developed to developing countries should as far as possible cease to have the character of "aid" and assume that of cooperation, being regarded as part of an integrated effort to mobilise resources for human progress.

Targets for official development assistance (ODA)

122. By 1974, only one country of the OECD Development Assistance Committee (DAC), Sweden, was in compliance with the UN target of a net transfer of ODA equal to 0.7 per cent of gross national product (GNP). Belgium, Canada, Denmark, Australia, Norway, France and the Netherlands were in a band from 0.49 to 0.62 per cent of GNP. Britain and Germany transferred about 0.38 per cent of GNP. The remaining DAC countries, including the United States and Japan as well as Switzerland, Italy, Finland, Austria and New Zealand, all transferred 0.30 per cent of GNP or less, thus

pulling the weighted average for the DAC group as a whole down to 0.33 per cent of GNP. ^{1/} Several of these countries had transferred a considerably higher proportion of GNP in the past than they do now when they have grown richer by several years' increase of their per capita GNP. Transfers from the higher-income centrally-planned economies are very much smaller in relation to their products.

123. From our collective knowledge of the circumstances of many of the developing countries and from our study of the efforts which have been made to quantify the requirements of these countries for net inflows of resources, we have no hesitation in insisting that the present total transfer of ODA is too small and inadequate to meet the most pressing problems, let alone to support the kind of structural transformation required for a new economic order. In all too many cases, the effort being made is too small in relation not only to the needs of the poor countries but also to the capacities of the rich. We consider that the reasons developed countries have advanced in an attempt to explain why annual aid appropriations have failed to allow them to reach the 0.7 per cent target already, and in some cases have resulted in backsliding, have little economic substance or validity. Ultimately it comes down to a question of priorities which governments themselves attach to the needs of the developing countries as compared with the domestic demands. It is a question of political will. We therefore urge that all developed countries regardless of their economic and social system, and particularly those with per capita GNP of over \$2,000, should without any further delay implement the UN target of 0.7 per cent.

124. However, in view of the developmental needs which have been extensively considered above, we regard fulfilment of the 0.7 per cent target as only a necessary first step. We believe that the present needs of developing countries require an ODA effort equivalent to at least 1 per cent of GNP by 1980.

125. Lest it be said that provision of net ODA to the amount of 1 per cent of the GNP by 1980 would impose an intolerable burden, we estimate that for the developed, market-economy countries this would entail their devoting to increase of ODA only some 5 per cent of the amount by which they may reasonably be expected to grow richer between 1975 and 1980. They could thus retain 95 per cent or more of the increase of their GNP for their own use and still increase net ODA to 1 per cent of GNP by 1980. Such an effort would be relatively negligible in relation to the prospective increase of wealth and income of the developed countries and yet would substantially improve the situation in regard to the economic transfer of resources.

126. The volume targets need to be taken in conjunction with a target for the terms of ODA. In this connection, we endorse the terms target adopted by the DAC, i.e. the average grant element of at least 84 per cent. We hope that terms of assistance, particularly for the poorer countries, would be such that the period of repayment would be at least 40 to 50 years, with a grace period of at least 10 years and a maximum rate of interest not exceeding 1 per cent. We also recommend that the terms for the least developed countries should be even more concessionary. We urge upon

^{1/} 1974 Figures for Portugal not available.

those donor countries which are not yet doing so to provide outright grants to the least developed countries and the countries most severely affected by the recent world economic crises.

127. The advantage of concessionary terms can be reduced or even nullified if ODA loans are tied to provision of unduly expensive goods and services, thus hardening the effective terms, or if rigidities in the administration of ODA prevent its effective use in support of development of high priority. We urge that, in view of the adverse effects that arise from the tying of ODA, its terms and conditions be made as flexible as possible, particularly in increasing significantly the proportion which is untied. We also urge the removal of the present rigidities in the administration of assistance, for example by increased financing of programmes as opposed to individual projects, and of local development costs, including procurement on a regional basis.

Automaticity in resource transfers

128. Developing countries need not only increased transfer of resources, but the assurance of a continuing adequate flow. Both in relation to the total size of the flow and its continuity, we consider it important that an increased element of automaticity should be built into the transfer process.

129. In this connection, we consider that developing countries should have priority call on Special Drawing Rights (SDRs) through some form of "Link" mechanism. We consider that there are no insurmountable technical difficulties to the establishment of such a Link, and that its inauguration under appropriate mechanisms and disciplines need not await the completion of a comprehensive package of reform of the international monetary system.

Distribution of transfers

130. In recent months, a number of steps have been taken to increase the proportion of ODA going to the poorest countries, many of which have been particularly adversely affected by recent economic events. This has been done by redistribution of existing bilateral and multilateral programmes, in tandem with the United Nations Special Programme for the most seriously affected countries.

131. In the longer term, we see a continuing need to shift the balance in the transfer of resources in favour of the poorest countries. This will be most readily accomplished, with fairness to all, in a framework of rapidly increasing total transfers.

Other recent initiatives

132. For the immediate future, there is a pressing need for further additional assistance of an interim nature to help the countries seriously affected by recent economic events, to overcome their immediate problems. In this context, we support the proposals to create a flow of funds on intermediate terms by means of subsidization of interest of sums borrowed on essentially commercial terms, provided that the subsidy fund is additional to, and not at the expense of, provision of ODA at highly concessionary terms - e.g. through the forthcoming replenishment of the resources of the IDA. We also support the proposal to use IMF gold holdings, directly or indirectly, for the finance of transfers to developing countries on concessionary terms.

Debt relief

133. Most developing countries have accumulated considerable external debt, because sufficient attention has not been paid in the past to the terms of international assistance or to the concept of net transfer of resources. Consequently, the developing countries have accumulated a total financial debt in excess of \$120,000 million^{1/}, and the debt servicing liabilities are already taking away more than 50 per cent of the new assistance they receive. In a number of developing countries the size of external debt and debt servicing liabilities creates a serious obstacle to continuing development. This means that there has to be an ever-larger gross capital inflow merely to offset debt service payments before there is any positive step towards net transfer of resources. In several countries, the debt servicing problem is to a great extent due to the inflexible nature of debt service liabilities, which become a heavy charge in years of below-normal export earnings and other foreign exchange receipts.

134. Countries in this latter situation would obviously benefit from the trade measures proposed, which are designed to stabilize prices of their staple exports; and also from an adequate scheme of compensation of shortfalls of export earnings. Their situation could also be eased by increase of overdraft facilities on easy and concessionary terms from the IMF or other sources in periods of balance of payments difficulties arising from causes outside the control of the countries concerned.

135. We nevertheless judge that there is a core of countries suffering from serious and intractable problems of external debt which have grown out of proportion to their economic strength and prospects, and for which measures of rescheduling and relief of external debt are required. It is essential that the need of the poorest countries for large and continuing net inflows of resources should not be frustrated by large outflow of debt service payments. We therefore recommend that the World Bank, in consultation with the IMF, the UN and UNCTAD Secretariats, and the DAC, should be invited to reconsider the feasibility of developing guidelines which would establish a presumption in favour of automatic rescheduling and relief from external debt of particular developing countries. In some of them these should include the writing off of certain loans; and for the most seriously affected countries, the conversion of existing loans into outright grants. In the spirit of the new international economic order and the need for a larger transfer of resources, these measures should be introduced as a matter of urgency.

^{1/} End of 1973, excluding private debts not under public guarantee in the debtor countries.