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terms and the decision to set up a Group of Twenty in the IMF. All other problems were once again laid aside indefinitely. This was by no means only due to the attitude of the Western industrial countries. The socialist states for their part did not exactly distinguish themselves by their readiness to make concessions either. And the Group of 77, too, must take a share of the blame, for the large number of its members makes it much too cumbersome an organisation to negotiate effectively under time pressure. The process of arriving at a consensus of opinion is a very lengthy one and often leads to exaggerated, if not utopian, demands.

In view of the hardly satisfactory outcome of the Conference, the question that must of necessity be asked is whether the great expense of UNCTAD III was worthwhile. Why, one may ask, was it necessary to transport more than 2000 delegates and observers to a conference at the other end of the world so that they could there continue their routine work? Why is the work not left to the Geneva Committees which deal with these matters anyway and discuss them with representatives of the other states?

UNCTAD III leaves many questions unanswered, and this is why it would perhaps be advisable to dispense in future with such monster gatherings. On the other hand, there is no denying that a world conference produces a certain positive image of the entire development work. Once every four years those engaged in this work have the feeling that the world is watching them. The industrial states, the developing countries as well as the Eastern Bloc are all given an opportunity to play their part in the negotiations. The result of dispensing with world conferences in future may be that the whole development machinery may gradually grind to a halt. One possible analogy is the experience with great international fairs: At these fairs many firms are represented at great expense to themselves, although most of their business is done throughout the year. And yet, potential customers have slowly got used to such events with the result that the fair becomes worthwhile for the participants.

It is by no means impossible that in the longer run UNCTAD will become similarly successful. But so far this has not been the case, and as far the future is concerned, prospects are not exactly bright.

## External Financing Problems of LDCs

by Sidney Dell, New York \*

**In INTERECONOMICS No. 3, 1972, Dr Erhard Eppler, Federal Minister for Economic Cooperation, expressed the view that the developing countries at UNCTAD III would not be content with mere benevolent declarations by the developed nations; on the other hand he saw less chance that the western developed countries might offer more concessions that would be regarded as adequate by developing countries than had been the case at the two previous UNCTAD sessions.**

UNCTAD III having taken place, it will be apparent that Dr Eppler's forecast last March was entirely realistic. It is easy to see, in a general way, why the Conference encountered difficulties. The preoccupations of governments in the developed countries with such matters as the war in Viet-Nam, the international monetary crisis, the new developments in East-West relations, questions of disarmament and the environment, and the many ramifications of the enlargement of the European Economic Community no doubt made it difficult to obtain the degree of high level governmental attention to development problems

that would have been required for a more constructive outcome at UNCTAD III. And yet the development problem is second to none. The very fact that the major trouble spots in the world are to be found in developing countries indicates that failure to deal promptly and effectively with the issues that arise in the development field is only to store up even greater problems for the future.

### Willingness to Render Assistance

Dr Eppler suggested in his article, that "willingness to render assistance is dwindling in the industrialized nations." This may be true of some of

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the industrialized countries, especially some of the larger ones, but it is by no means true of all of them. The objectives of UNCTAD have captured public imagination in such countries as the Netherlands and the Scandinavian countries. Public opinion in the Netherlands demands a forward-looking attitude on the part of the government to development problems, and the Dutch delegation at Santiago was accompanied by strong representation from parliament and the press, reflecting the immense concern of people in that country. Shortly before UNCTAD III Norway announced that it intended to try and reach a public aid target equivalent to one per cent of the GNP by 1978 — a target that goes well beyond the UNCTAD public aid target of 0.7 p.c. of GNP. These and other examples can be cited to show that several of the industrial countries have not wavered in their support of UNCTAD objectives, and that effective leadership could greatly improve the prospects for international cooperation. Among the principal issues raised by the developing countries at UNCTAD III were those connected with the international monetary situation. There was also a good deal of discussion of the flow of external assistance and the mounting debt problem.

#### **International Monetary Situation**

As regards the international monetary situation, the developing countries were concerned with three main aspects. In the first place, they expressed dissatisfaction with the manner in which the negotiations leading up to the Smithsonian Agreement of December 1971 had been concentrated within the Group of Ten, to the virtual exclusion of any discussion in the accepted international forum for this purpose — the International Monetary Fund. The Smithsonian Agreement, vital as it may have been for the world as a whole in restoring order to exchange markets and avoiding the threat of a trade war, did impose severe burdens on the developing countries without their having had an opportunity even of being consulted let alone of influencing the course of events. The UNCTAD secretariat documented the fact that many developing countries had suffered losses on their terms of trade and in the real value of their foreign exchange reserves, as well as an increase in the real burden of their external indebtedness. No doubt the alternatives to the Smithsonian Agreement might have been even worse for the developing countries, but the mere fact that developments of this kind could occur as a result of decisions by relatively few countries gave rise to serious concern at UNCTAD III.

The developed countries responded to this concern by acknowledging that there should be

“effective participation of the developing countries in the decision-making process of the international monetary system.” To this end, the Conference invited the International Monetary Fund “to give sympathetic consideration” to proposals to create a Committee of Twenty Governors to advise the Board of Governors on issues related to the reform of the international monetary system, with the developing countries entitled to nine of the seats on the Committee.

#### **Bridging of Trade and Monetary Problems**

The second issue arose out of reports that the OECD countries were considering among themselves the question of a forum in which negotiations on international monetary reform and on related trade problems could be coordinated. The financial press reported during UNCTAD III that a proposal had been made whereby a “bridging” committee would be established within the OECD to review progress made in the trade and monetary spheres and to establish direct links between the two. The concern of the developing countries in this regard was twofold. First, they wished to ensure that any such forum should not, once again, be limited to a few of the rich countries within the OECD, but should be broadly representative of the international community as a whole. Secondly, they saw the need to introduce their own trade and aid objectives into the reckoning, so that any overall international settlement of current trade and payments problems would secure advantages for developing as well as for developed countries. To this end, the developing countries proposed the establishment of intergovernmental machinery of a consultative character that would bring together and review developments in the IMF, GATT and UNCTAD with a view to comparing the adequacy of progress achieved in each agency within its own sphere of competence.

This proposal was strongly resisted by the developed countries: the Western European countries in particular saw it as a move tending to support the United States view that solutions of trade and monetary problems should be tied together — a view that the Europeans were not ready to accept. The developing countries, for their part, were not concerned to side with any particular group of developed countries, but merely wished to ensure that in the process of hard bargaining on trade and monetary matters between North America, Western Europe and Japan, the interests of developing countries should not get squeezed out. Although the developed countries made no commitment regarding the establishment of intergovernmental machinery along the lines desired by the developing countries, they did accept the

idea that the Secretary-General of UNCTAD should consult the Managing Director of the International Monetary Fund and the Director-General of GATT as to the ways in which problems in the monetary, trade and finance spheres might be resolved in a coordinated manner.

The third main subject considered in the context of the international monetary situation was the proposal for a link between Special Drawing Rights and the provision of additional resources for development finance. Under this proposal, the volume of new international liquidity in the form of IMF Special Drawing Rights to be created at any particular time would continue to be determined entirely by the monetary requirements of the world economy. But once the required volume of new creation had been determined, a pre-agreed proportion of the new Special Drawing Rights would be channelled into the system through the World Bank and the regional development banks. These institutions would use these SDRs as a means of providing additional development assistance, and the SDRs would thus end up in the hands of the developed countries supplying the goods and services needed for the corresponding World Bank and regional bank projects.

#### Discussion over "Link" Proposal

This proposal has been studied and found viable by two high-level expert groups in UNCTAD representative of all groups of countries, by one expert group appointed by the Organization of American States and most recently by an outstanding group appointed by the Brookings Institution, the European Community Institute of University Studies and the Japan Economic Research Centre. All these groups unanimously agreed that the link is both feasible and desirable, and accordingly recommended it.

Most developed country governments have hitherto been hostile to the link, but a number of statements by these countries at UNCTAD III appeared to reflect a significant shift in positions. Mr Valery Giscard d'Estaing, Minister of Economy and Finance of France, stated in the course of his address to the Conference that: "Finally, the creation of agreed international liquidities in the form of Special Drawing Rights — if confirmed, as we expect, by the new system — will enhance the continuity and the progression of public aid efforts. This is why France is prepared to allow the creation of a link between these Special Drawing Rights and aid for development. France feels that this link should be so designed as to promote the realization of the goals of donor countries pertaining to aid programmes for development."

The link also received the endorsement of the Italian delegation. Several other delegations, including certain of those that had previously been among the most strongly opposed to the link, declared that their positions had changed and that they were now prepared to consider the matter carefully. In private, many delegates from the developed countries said that while the issue was not yet sufficiently mature for a firm decision at UNCTAD III, it was their personal feeling that the link was bound to come in due course, as part of the reform of the international monetary system.

The text of the decision adopted by the Conference invites the Executive Directors of the International Monetary Fund to present as soon as possible to the Board of Governors "the studies required for decisions that are necessary on the possible implementation of a viable scheme." This is very careful wording, reached after long days and weeks of negotiations as well as a final all night session. There is no commitment stated or implied, but on the other hand the wording goes further towards blessing the proposal than any resolution previously adopted on this subject. The United States (joined by Australia, Cameroon, Dahomey, New Zealand and South Africa) abstained on this paragraph because, in its view, the link should not precede other elements of the prospective international monetary reform; and because it felt that the words "possible implementation of a viable scheme" went too far. All the other developed market economy countries accepted the paragraph as it stood, not regarding it as prejudging the matter in any way. The United States' abstention would not appear to constitute an expression of any fundamental difference of view on this matter, and the delegation was therefore able to vote for the resolution as a whole. If the good omens in this resolution turn out to be justified, UNCTAD III may come to be regarded as the Conference that led to a breakthrough on the link, just as the New Delhi Conference brought about the introduction of the generalized system of preferences.

#### Capital Flow Targets

A great deal was said at the Conference about the need to eliminate from the UNCTAD capital flow targets those elements that do not have the character of aid. At the present time the one per cent target includes such elements as foreign private investment, which is undertaken in expectation of a normal rate of return, and export credits, which are designed to promote the exports of the creditor country rather than the development of the recipient country. Neither foreign private investment nor export credits involve any

real sacrifice for the capital-exporting countries, nor are they regarded as aid in transactions among developed countries. It was therefore argued that they have no place in a target that purports to establish aid objectives for the international community. The contrary view expressed was that the one per cent target is designed to be a comprehensive measure of all flows of capital to developing countries, while public aid is the subject of a separate target, namely the 0.7 p.c. target. It was also pointed out that the developed countries are, on average, now so far from compliance with the existing targets that it would be unrealistic to raise them, especially so soon after their adoption as part of the International Development Strategy by the United Nations General Assembly in 1970. In the end, the Conference decided to instruct the Trade and Development Board "to examine the concepts of the present aid and flow targets in order to prepare for a discussion thereon in the mid-term review of the Second Development Decade Strategy."

#### Debt Problem

The Conference made least progress on the debt problem, even though there was a wide measure of agreement among both the developed and developing countries that this is likely to be a serious problem for the 1970's. The UNCTAD secretariat had produced an analysis which showed that while in 1970 only 5 of 60 developing countries for which data were available had ratios of debt service payments to exports of goods and services exceeding 20 p.c., by 1980 this number was likely to rise to 17, of which 7 might have ratios in excess of 30 p.c. This projection was based on optimistic assumptions, including the assumption that the exceptional upswing in developing countries exports of the second half of the 1960's would be maintained and that suppliers' credits would grow at a rate of only 9 p.c. per annum during the 1970's, as against the 15 p.c. annual rate of recent years. If either of these assumptions is not fulfilled, the outlook would be appreciably worse than that indicated by the UNCTAD secretariat.

A number of delegations interpreted the World Bank view, as expressed in the Annual Report of the World Bank for 1971, to be at variance with these findings. In fact, however, the President of the World Bank stated in the course of his address to the Conference that "if ODA (Official Development Assistance) flows level off at substantially less than the target for the Decade, mounting debt problems for the developing world are inevitable." Since the World Bank expectation is that the ratio of Official Development Assistance to GNP for DAC countries as a whole will level out

at about 0.35 p.c., it would follow that mounting debt problems are, to use the President's words, "inevitable."

Developing countries, while agreeing that prudent debt management was indispensable, pointed out that situations could arise where the best management in the world could not avoid difficulties. The most obvious cases were those of countries that had experienced severe declines in external demand for their export products. New capital inflows could in principle help to alleviate the debt servicing problem. But these flows, it was suggested, are virtually always tied to the purchase of goods and services other than the servicing of debt and do not, therefore, normally add to a country's capacity to meet its debt obligations. The Pearson Commission had therefore recommended that "aid-giving countries should consider debt relief a legitimate form of aid and permit the use of new loans to refinance debt payments, in order to reduce the need for full-scale debt negotiations." It was also pointed out that a debt crisis that was handled by measures designed to reduce the growth of a debtor's economy below an acceptable minimum was not resolved at all: the crisis was simply translated from a debt servicing crisis into a development crisis.

#### Standards and Guidelines for Debt Relief

The developing countries therefore proposed that the relationship between the debt problem and the overall development of a country should be fully acknowledged, and that appropriate measures should be taken to deal with cases of potential difficulty long before the moment of crisis actually arrived. It was felt that, to this end, loan agreements should include a "bisque" clause whereby the debtor would, in certain conditions, be accorded some pre-agreed measure of relief. A need was also seen for the formulation of standards and procedures on a more systematic basis, so that it would be possible to avoid wide discrepancies in the treatment of countries in roughly similar situations, as had happened in the past.

The developing countries were not suggesting that there should be any automaticity about debt relief, or that pre-determined rules should be applied indiscriminately across the board. What they were seeking was agreement on a series of standards and guidelines that could be applied flexibly in the particular circumstances of each individual case. It was, for example, suggested that renegotiation of debt, on a long term basis and on concessionary terms when necessary, should be open for consideration by the international community in any case where, notwith-

standing the adoption of prudent policies by the country concerned, it proved impossible to achieve adequate levels of domestic savings or import capacity because of mounting debt service obligations.

The developed countries were unable to accept this approach at UNCTAD III. They considered that the primary responsibility for avoiding debt servicing difficulties lay with the developing countries themselves, who should manage their debt positions in such a way as to avoid over-commitment. Efforts to examine the debt problem in relation to the development problem as a whole were regarded as misguided: debts involved solemn obligations that could not be shrugged off lightly. Particular emphasis was placed on the need for caution in accepting commercial credits; most cases of difficulty, it was felt, arose from acceptance of an excessive volume of such credits beyond the capacity to service them, and it was for the developing countries themselves to take steps to avoid such situations. Opposition was expressed to the views of the Pearson Commission cited above as well as to any idea of developing principles or standards for dealing with debt problems.

#### Little Progress in External Financing

It will therefore be apparent that there was no meeting of minds at Santiago with respect to the manner in which the debt problem should be handled in future, or even about the diagnosis of the problem. This being the case, it is important to continue with the dialogue on these matters in UNCTAD in the hope of being able to reach a greater convergence of views before the international community finds itself faced with problems of a magnitude that it is presently ill-equipped to handle. The only material outcome of the discussion was that there was general agree-

ment on the need for easier average terms of assistance in future, and to this end encouragement was given to the DAC countries to negotiate a further improvement in their existing terms target.

All in all, developments at UNCTAD III in the field of development finance and the international monetary situation fell far short of what had been hoped. No progress was made in obtaining a greater commitment from the developed countries to the assistance goals of the International Development Strategy, let alone in raising those goals. Although DAC countries agreed to consider a further easing of the terms of assistance, there was no progress at all in achieving a better mutual understanding regarding the debt problem, or a coordinated approach for dealing with it. While it was unanimously agreed that past failures to involve the developing countries in the decision-making process in the international monetary system should not be repeated, it was far from clear whether due account would in fact be taken of their trade and monetary interests in any overall international economic settlement ultimately reached. Even as the Conference proceeded in Santiago, efforts were under way elsewhere to establish a new forum in which a small group of developed countries would, in effect, determine the main lines of the forthcoming trade and monetary negotiations.

An important step forward may have been taken towards the establishment of a link between Special Drawing Rights and additional development assistance, but the developed countries made it clear that they had not yet made up their minds on this matter, and that in any case no action could be expected in the context of an overall international monetary reform. The decision on this matter was nevertheless one of the more hopeful elements in a Conference that was in general very mixed in its results.

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