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Conflicting Perspectives and Policies: An Analysis of the Failure of the United Nations Capital Development Fund

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CONFLICTING PERSPECTIVES AND POLICIES: AN ANALYSIS OF THE FAILURE OF THE UNITED NATIONS CAPITAL DEVELOPMENT FUND

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CONFLICTING PERSPECTIVES AND POLICIES: AN ANALYSIS OF THE FAILURE OF THE UNITED NATIONS CAPITAL DEVELOPMENT FUND

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The United Nations Capital Development Fund was established by the U. N. General Assembly under Resolution 2168 (XXI) of 13 December 1966. Its expressed purpose was to assist developing countries in the development of their economies by supplementing existing sources of capital assistance by means of grants and loans, particularly long-term loans made free of interest or at low interest rates.

More than its actual or potential role, the Fund has a symbolic meaning for the developing nations. To them, it represents the best hope of overcoming their problem of capital shortage. It symbolizes also the expected role of the rich countries of the world in sharing their wealth to alleviate poverty.

However, the Fund has failed to serve as a viable agency for the provision of capital on a world wide scale. Its failure can be attributed to the absolute refusal of the developed nations to lend financial support.

PREFACE

It is becoming increasingly evident that the existence together, in an increasingly technological world, of highly developed and under-developed nations, is one of the critical problems of our time; and, indeed, many other aspects of international relations are rapidly becoming related to this central crux. The problem of development of the less developed countries, which now constitute a substantial majority of the family of nations poses almost overwhelming odds against them. These countries are desperately short of the necessary capital and the needed skills, and must look more and more to the outside world for assistance. It is in response to this plea for assistance that the United Nations has, through its Member States, established institutions and procedures for the granting of financial and technical aid to the developing countries.

Yet it is painfully evident that present programs of aid are totally inadequate. Little progress has been and is today being realized. The volume of capital available to the developing countries continues to fall short of their capital requirements. While the national incomes of the developed nations grow at rates of about 5 to 6 per cent a year, incomes of the developing nations grow at $3\frac{1}{2}$ per cent a year. Though the rich nations are getting richer, economic assistance has stayed on a plateau. Therefore, in proportion to national income, economic assistance has begun to fall and is still falling. The First Development Decade target set for the flow of external capital to the developing nations was 1 per cent of the combined annual national incomes of the developed countries. This goal was farther from realization in 1964 than in 1961 when the target was set. The Economic and Social Council reports that during the period 1961-1964 there was a steady decline in percentage from about 0.83 per cent in 1961 to 0.65 per cent in 1964. In 1970, net disbursements of official development assistance from developed market economy countries to developing countries and multilateral institutions amounted to 0.37 per cent of the combined GNP of these nations. Subsequent reports show no marked increase in this percentage.

The effectiveness of these inadequate resource flows has been weakened by the shift in the composition of aid from grants to loans, and the hardening of loan terms with regard to interest rates, maturities and grace periods. These hard terms of capital assistance have saddled many developing countries with heavy burdens of debt. Estimates show that the outstanding external public debt of ninety-six developing countries increased from $10 billion to $39.2 billion between 1956-1965, and payments of interest and amortization on this debt increased by about 400 per cent from $0.8 billion to $3.5 billion over the same period. The urgency of the problem is revealed in recent United Nations Conference on Trade and Development (UNCTAD) projections which indicate that net lending to developing countries will become negative after 1975 if the levels of grants and loans and average terms and conditions remain unchanged.

This study is concerned with one institution established by the United Nations to deal directly with the problem of capital shortage in the developing countries, i.e., the United Nations Capital Development Fund. Established by the United Nations General Assembly under Resolution 2168 (XXI) of 13 December 1966, the Fund was to supplement existing sources of capital assistance "by means of grants and loans, particularly long-term loans made free of interest or at low interst rates." The Fund, however, has failed to function effectively in this capacity. More than its actual or potential role, the Fund idea, during the long campaign to create it, took on symbolic meaning. To the poor countries, it was their best (and last) hope to overcome the major obstacles to their modernization and achieve a great victory. It symbolized also the expected role of the rich countries of the world in sharing their wealth so that poverty and gross inequality might be overcome. Increasingly it became the ultimate solution, and the poor countries tended to base their hope and measure their progress on a scale related to support for and opposition to the Fund. The ultimate political victory leading to its creation, followed by the blatant defeat of the Fund as an effective operational program by the refusal of the rich countries to underwrite its funding led to the shattering of the symbolic illusion. The developing states are still trying to pick up the pieces of their shattered myth and build a new approach to development, but the wound created by its shattering continues to fester. The idealism that helped to build the myth, however, is being replaced by a new pragmatism that recognizes that the rich and powerful nations define their own national interests and implement them in their own way. There is a new recognition that voting victories in international bodies cannot force the rich and powerful stated to act contrary to the way in which they define their own interests.

The purpose of this thesis is to try to explain this failure. In so doing it will be necessary, first of all, to discuss the whole sphere of the financing of economic development within the United Nations framework. Utilizing the literature on economic development, I plan to analyze the critical role of capital in the development process. I shall briefly examine other institutions established under the aegis of the U. N. for the specific purpose of providing capital, e.g., IBRD, IFC, and IDA. I plan to analyze and evaluate the effectiveness of these agencies in meeting the demand for capital, and relate these findings to the decision of the U. N. majority to create a UNCDF. Other possible or potential sources of developmental capital, e.g., trade surpluses, will also be reviewed.

It will be necessary to analyze the philosophical and theoretical perspectives of the rich and poor nations as regards methods for the financing of economic development. Indeed the failure of the UNCDF is a manifestation of the great difference in perspectives of these two blocs. It is only against this background of conflicting perspectives that one can begin to understand the different attitudes of nations engaged in the UNCDF campaign. I plan in particular to study these perspectives and attitudes as reflected in the General Assembly debates on the UNCDF. I intend also to study the decision making apparatus of the UNCDF and planned method for the procurement of capital, both of which serve as focal points of controversy.

To recapitulate in brief, I plan in this thesis to set forth the facts that led to the creation of the UNCDF as the culmination of the 14-year SUNFED campaign by the developing states bloc in the United Nations. My investigation will concentrate in particular on explaining the reasons for the majority state victory in creating the UNCDF, and the subsequent economic failure of the new institution as a result of the almost total lack of support by the capital-rich countries of the world. In my analysis, I plan to try to find answers to the latter failure by looking at both objective facts and psychological and ideological factors that have created different images of the role of capital in the developmental process, and of the UNCDF role. Out of these analyses will emerge some conclusions that will help to explain the reasons for UNCDF's failure and possibly postulate the base for a new and more fruitful working relationship between the rich and poor states in the drive to obtain capital.

In writing this thesis I have utilized primary source materials such as the United Nations Official Documents and the Official Records of the General Assembly debates, etc. Journals such as the United Nations Monthly Chronicle, International Conciliation, and International Organization were used as well as books, articles, and related materials which deal with the problem of financing economic development.

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INTRODUCTION

That poverty exists in the underdeveloped countries of the world is an old story. What is new is their determination to do something about it. People in these countries are convinced that the continuation of poverty, hunger and disease is not inevitable. They are no longer prepared to accept the hope of felicity in heaven as a substitute for happiness on earth. With a growing unanimity they are determined that something must be done about the widening gap between their standard of living and that of the developed world.

The economic development of a country largely depends on its financial resources. In other words, a major factor for the development process is the accumulation of the necessary capital.[1] In the advanced countries economic growth is maintained without notable difficulty by national saving and investing, whereas the inhabitants of the underdeveloped countries are too poor to have any savings to invest. Though many aid programs have been initiated to lift the economic level of these poor countries, the volume of capital available to them continues to fall short of their capital requirements.

It was in recognition of the fundamental problem of capital shortage in the poor nations and the problem of reconstruction of war-torn Europe that the International Bank for Reconstruction and Development (IBRD) was established in 1945. Although it is stated in the Bank's

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[1]Kirdar, Uner, The Structure of United Nations Economic Aid to Underdeveloped Countries (The Hague: Martinus Nijhoff, 1966), p. 97.

Statutes that its resources and facilities should be used with equitable consideration to projects for development and projects for reconstruction alike, in practice during the formative years of the Bank, equitable consideration meant reconstruction first, then development. During the first three years of its operation a total of $735,145 thousand was lent to member countries, of which $535,500 thousand went for reconstruction purposes and $198,645 thousand for development.[1] Throughout this period the lion's share of the Bank's lending went to highly developed countries.

Thus the shortage of capital remained a barrier to the development of the underdeveloped world. Dissatisfied with the unfair allocation of the Bank's resources, the developing nations looked to the United Nations for leadership in their struggle to attain the means whereby development could be financed.

The idea of a United Nations Capital Development Fund can be traced to the third session of the Sub-Commission on Economic Development (March-April 1949). The Sub-Commission's Chairman V. K. R. V. Rao of India proposed, at that time, that a United Nations Economic Development Agency should be established. Its primary function, he suggested, would be to "finance or help to finance those schemes of economic development which could not be financed from the country's own resources and for which loans could not be obtained on strict business principles."[2] During the third session of the General Assembly, (April-May

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[1] ibid.. p. 164.

[2] Official Records of the Economic and Social Council, Ninth Session, Supplement 11B, p. 22.

1949), the developing nations strongly criticized the policy of assistance granted by the Bank. They contended that if assistance was to be effective, the Bank would have to grant larger loans more liberally and speedily. They also suggested that the Bank explore the possibility of financing more development plans for the advancement of their poor nations.[1]

Following these discussions the General Assembly approved Resolution 198 in which it recommended that the Economic and Social Council (ECOSOC) and the specialized agencies give urgent consideration to the problem of economic development of the developing nations. This resolution was considered during the eighth (February-March 1949) and ninth (July-August 1949) sessions of the Council but no concrete proposal on methods of financing economic development was set forth. Although some members expressed the desire to set up a new international body, the Council rejected this proposal by 10 votes to 6 with 2 abstentions[2] as a result of the initiative of the United States representative.

At its eleventh session (July-September 1950), the Council was again faced with the Rao proposal for a development agency. While agreeing that much essential development of a "social overhead" nature could not be financed by the Bank, the representatives of the United States and the United Kingdom opposed any modification of the Bank's constitution. They suggested that a "favorable climate" to develop an international market for capital could be established if the developing

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[1]General Assembly Official Records, Second Committee, Third Session, pp. 38-39.

[2]Official Records of ECOSOC, Ninth Session, pp. 872, 877.

nations improved their legislation and administrative machinery and guaranteed the loans made by foreign private sources. ECOSOC Resolution 290[1] subsequently adopted by the Council was heavily weighted in favor of the developed countries. It contained a generous amount of advice for the developing nations but no practical solution. This was also the position of the fifth General Assembly. It limited itself to the adoption of Resolution 400 by which it recommended that the ECOSOC should "consider practical methods, conditions and policies for achieving the adequate expansion and steadier flow of foreign capital" to underdeveloped countries and "pay attention to the financing of non-self-liquidating projects which are basic to development."[2]

A group of experts, appointed by the Secretary-General in accordance with the ECOSOC Resolution 290, prepared a unanimous report entitled "Measures for Economic Development of Underdeveloped Countries."[3] The report contained sixteen major recommendations of which the fourteenth and sixteenth related most directly to the capital needs of the developing states:

> Recommendation 14: The United Nations should establish an international development authority to assist the underdeveloped countries in preparing, co-ordinating and implementing their programmes of economic development; to distribute to underdeveloped countries grants in aid for specific purposes; to verify the proper utilization of such grants; and to study and report on the progress of development programmes.

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[1]ECOSOC Resolution 290 (XI), September 15, 1950.

[2]General Assembly Resolution 400 (V), November 20, 1950.

[3]ECOSOC, official documents, "Measures for Economic Development of Underdeveloped Countries," Doc. E/1986.

> Recommendation 16: The United Nations should explore the possibility of establishing an international finance corporation to make equity investments and to lend to private undertakings operating in underdeveloped countries.[1]

These recommendations were considered at the thirteenth session of the ECOSOC (August-September 1951). While all representatives agreed that there was a need for external grant assistance to the developing nations, there was disagreement on the type of machinery through which grants would be made available and on whether the creation of such an international machinery was currently feasible and practical. The representatives of some developing nations, i.e., Chile, Philippines and India, advocated the establishment of such an agency.[2] The United States delegate stressed that "lack of means would not permit a number of countries to participate in this venture. Moreover, the underdeveloped countries, as a result of their improved balance of payments position, would be able to meet to a greater extent their development requirements out of foreign exchange earnings."[3] The representative of the Soviet Union objected to the fact that the experts had made no mention of establishment of national industry, and they had advocated foreign capital as the primary means of development and had thereby sought to encourage monopolistic exploitation.[4] Without accepting or rejecting these recommendations the

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[1]ibid., p. 95.

[2]Yearbook of the United Nations (New York: Columbia University Press, 1951), p. 383.

[3]ibid., p. 382.

[4]ibid., p. 383.

Council noted that the capital-exporting countries were not in a position to make any contribution to an international agency along the lines suggested. However, it requested the Secretary-General to "formulate a series of methods which he deemed practicable for dealing with the problem of grant assistance."[1]

The SUNFED Proposal

In January, 1952, the sixth General Assembly approved Resolution 520A by which it gave strong support to the idea of establishing a special fund for grants in aid. It requested the Council to submit a detailed plan for establishing, as soon as circumstances permitted, a Special United Nations Fund for Economic Development (SUNFED) to provide low interest, long-term loans to developing countries for the purpose of helping them, at their request, to accelerate their development and to finance non-self-liquidating projects.[2] By this resolution (hereafter referred to as the SUNFED Proposal) the Assembly stressed its belief that the national incomes of the developing countries did not allow a sufficient accumulation of domestic savings to provide heavy investments for rapid development. It also expressed the belief that there existed an urgent necessity of creating new sources of international financing. Though Resolution 520A was a mild victory for the developing nations, it was obvious to all that without the participation and the contributions of the capital-rich countries,

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[1] ECOSOC Resolution 368 (XIII), August 27, 1951.

[2] General Assembly Resolution 520A (VI), January 12, 1952.

the establishment and the adequate operation of such a fund was a utopian dream.

The Secretary-General submitted to members of the Council in May 1952, a working paper[1] setting forth a series of "alternative approaches" for establishing a special fund for economic development. It dealt with the resources of such a fund, the ways in which they might be made available to countries needing them, and the machinery required to supervise operations. Both in the meetings of the fourteenth session of the ECOSOC and the seventh session of the General Assembly (October-December 1952), representatives of the developed nations indicated that their governments would not be able to contribute at present to such an agency and noted that subscriptions to such a fund might well reduce the existing financial assistance to the developing countries. On their initiative the Council as well as the Assembly decided that the study of the many aspects of the proposed fund was not sufficiently completed and therefore requested the Secretary-General to continue his study. In addition, the Council established a committee of nine persons to work in conjunction with the Secretary-General.[2]

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[1]ECOSOC, official documents, "Methods of Financing Economic Development," Doc. E/2234.

[2]ECOSOC Resolutions 416A and 416C, May 27, 1952. General Assembly Resolution 622 (VII), November 6, 1952.

The Committee of Nine

The committee of nine met from 21 January to 6 March 1953. It subsequently submitted a report[1] containing a series of recommendations. Because this report formed the basis of discussion in subsequent years and because it contained those principles upon which the Capital Development Fund was ultimately established, some of its recommendations are herewith summarized:

1. Resources of the fund should be made up of voluntary annual contributions rather than of capital subscriptions, the Fund should be authorized to accept and appeal for contributions from non-governmental agencies, and contributions of each government should be determined according to its economic strength and resources.[2]

2. Contributions to the Fund should be convertible to other currencies if the contributing government permits such conversion.[3]

3. The minimum initial figure for the establishment of the Fund is 250 million, and these funds should be replenished at "regular periodic conferences."[4]

4. Certain principles and policies should be observed and accepted by members of the Fund. a) The Fund should not serve as a means for foreign economic and political interference in the internal affairs of assisted countries; b) it should not be influenced by considerations relating to the political structure of the country requesting assistance; and c) it should support projects with the widest possible impact on the whole economy rather than be limited to non-self-liquidating projects.[5]

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[1]ECOSOC, official documents, "Report on a Special United Nations Fund for Economic Development," Doc. E/2381.

[2]ibid., pp. 9, 12.

[3]ibid., p. 13.

[4]ibid., p. 15.

[5]ibid., pp. 20, 21.

5. The merits of individual applications, the maintenance of a reasonable geographical distribution and possible results of each project should be considered in the allocation of the Fund's resources.[1]

6. Loans should not be made according to strict commercial principles. In providing grants and loans the interest of the receiver should be "the paramount consideration."[2]

9. Membership in the Fund should be open to members of the United Nations or any specialized agency willing to subscribe to its principles and policies.[3]

10. The Fund should be controlled and managed by a General Council composed of representatives of all members, an Executive Board composed of representatives of eight to twelve members—representation being equally distributed between major contributors and the developing nations, and a Director General functioning as chairman of the Board.[4]

11. The Fund should be established as a separate administration with an independent budget.[5]

12. No mechanism of weighted voting should operate in the Executive Board. All effort should be made to achieve unanimous agreement; however, if division should occur, decision should be taken by a simple majority vote.[6]

These recommendations were considered at the sixteenth session of the Council. There was no deviation from the line of policy followed by the capital-rich nations. On the contrary, a new barrier for retarding progress toward the realization of the Fund was introduced by the United States whose representative stated:

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[1]ibid., p. 26.

[2]ibid., p. 28.

[3]ibid., p. 34.

[4]ibid., p. 35.

[5]ibid., pp. 35, 36.

[6]ibid., pp. 40, 41.

> Substantial though United States Assistance for economic development had been, its scale had been limited by circumstances over which it had no control. Aggression and the threat of aggression had called for the assumption, most reluctantly accepted, of a heavy burden of armament. The United States government was ready to ask its people to join with all nations in devoting a substantial percentage of the savings which would be achieved by such disarmament to a fund for world aid and reconstruction.[1]

The United States subsequently introduced a draft resolution[2] endorsed by other major potential contributors, in which they pledged to ask their peoples, when genuine progress had been made toward internationally supervised world-wide disarmament, to devote a portion of the savings achieved through such disarmament to an international fund for development and reconstruction. In essence, the developed nations were of the opinion that further refinement of a scheme such as that proposed by the Committee of Nine would be premature in the absence of circumstances conducive to its realization, i.e., the absence of security. The significance of the U. S. proposal was that the SUNFED Proposal would be shelved almost for good, despite the belief in its necessity. In the light of the deep ideological differences between east and west, peace seemed unattainable. Thus, representatives of the developing nations opposed the idea of tying the Fund too closely to the savings which it was hoped would be derived from disarmament. In their view, the needs of their impoverished countries required immediate attention. SUNFED had been regarded as an important solution to their problem. To

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[1]ECOSOC, Sixteenth Session, Summary Records, official documents, p. 139.

[2]ECOSOC, official documents, Doc. E/L. 536, July 14, 1953.

make its establishment depended upon disarmament was to give economic development a lower priority than rearmament. In the words of the delegate from Argentina,

> It was as necessary to free the world from hunger, illness . . . as it was to lay the foundation of collective security and it was inconceivable that present peace should be purchased at the price of future hunger.[1]

They urged that the report be used as a basis for the consideration of further preparatory steps for the establishment of the Fund.

The SUNFED Campaign

The eighth General Assembly (15 September-9 December 1953) reviewed the report of the Committee of Nine and requested Member States to submit their detailed comments. In addition, it appointed a committee to examine the comments received, to collate them and to report to the Council and the Assembly. A comprehensive report[2] was submitted at the Assembly's ninth session (October-December 1954). In general, the report reflected no change in the attitude of the capital-rich countries. It concluded that the essential conditions for the establishment of SUNFED did not exist at that time. It explained that this was because of the slowness in achieving disarmament and of the continued disinclination of major industrial powers to lend support to

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[1]ECOSOC, Sixteenth Session, ibid., p. 161.

[2]General Assembly, official records, Ninth Session, Supplement 19 (A/2728).

its establishment. It noted that several industrial nations had criticized the voting procedures recommended by the committee.

Progress toward the establishment of the Fund was further delayed when the United States and other Western nations pledged their support for the establishment of an International Finance Corporation. The idea of such a Corporation had been suggested in the report entitled "Measures for Economic Development of Underdeveloped Countries"[1] submitted to the Council's thirteenth session. It had, at that time, been rejected by the United States and other industrial powers. The sudden shift in U. S. policy was the result of many factors amongst which was the increasing aggressiveness of the developing nations in their campaign for the establishment of the SUNFED. More importantly, the Corporation was viewed as an alternative to the SUNFED which would be more compatible with the United States national interest considerations. If it was necessary to make a choice between the two proposed organizations, it was the Corporation which should be endorsed and SUNFED postponed. Because, in addition to the fact that the IFC involved a relatively modest contribution, it would mobilize only private capital, encourage private enterprise and represent a more controllable instrument from the standpoint of United States policy. Indeed, U. S. participation in the proposed Corporation was subject to its establishment as an affiliate of the IBRD and to the limitation of its membership to the members of the Bank.[2] The calculation of the

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[1]ECOSOC, official documents, Doc. E/1986.

[2]Kirdar, pp. 173, 174.

United States was correct; the IFC was subsequently established and SUNFED again delayed during 1955. The position of the industrialized nations of the east had shifted at this time from one of opposition to the FUND to one of support. They severely criticized Western bilateral aid and gave ostensible support for the principle that all kinds of assistance should be granted under the aegis of the United Nations.

Contrary to the expectation of the capital-rich nations of the west, the establishment of the IFC did not quench the desire of the developing nations for a special fund for economic development. During the years following the creation of the Corporation the same arguments for SUNFED were repeated in the United Nations forum by the same group of countries which were even more convinced of the correctness of their thesis and more determined to run a successful campaign.

The eleventh General Assembly (November 1956-February 1957) entertained many proposals set forth by Member States as alternatives to the SUNFED. The representative from France presented a plan[1] for the reorganization of assistance given under the auspices of the United Nations. In the same vein the representative of Argentina recommended the establishment of a Special Fund to "finance regional centers for surveying natural resources and regional technological institutions for training technicians and studying methods of increasing productivity in the developing nations.[2] Even these proposals were rejected by the United States and the United Kingdom who presented the following arguments:

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[1]General Assembly, Eleventh Session, Second Committee, Summary Records, 403rd meeting, p. 150.

[2]ibid., p. 169.

1. If the Fund were to be established forthwith, it would only be set up on a minute scale that would be ineffective, lead to disillusionment and damage the prestige of the United Nations.

2. Until a substantial amount of additional resources could be released by disarmament, no meaningful fund could be established without increasing inflationary pressures.

3. Private international capital investments had recently been increasing rapidly.[1]

The supporters of SUNFED came to the twelfth General Assembly (September-November 1957) prepared to continue their campaign. When the question of SUNFED came up for discussion, the Second Committee was presented with an eleven-Power (Argentina, Ceylon, Chile, Egypt, Greece, India, Indonesia, Mexico, the Netherlands, Venezuela and Yugoslavia) draft resolution[2] by which it would be decided to establish an "Economic Development Fund." The resolution envisaged that the fund would begin its operations by 1 January 1960 "at the latest." In addition, the Committee had before it a draft resolution[3] by the United States by which the Assembly would establish a "Special Projects Fund" (Special Fund) within the Expanded Programme of Technical Assistance to provide "systematic and sustained assistance in fields essential to the integrated technical, economic and social development of the developing nations. The Special Fund was a belated recognition by the advanced states that technical assistance is only meaningful as

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[1]ECOSOC, Official Records, Twenty-Fourth Session, p. 191.

[2]General Assembly, Official Records, Doc. A/C.2/L.331 and Rev. 1.

[3]General Assembly, Official Records, Doc. A/C.2/L.354.

a development tool if matched by inputs of capital. At that, it was only a compromise falling far short of the perennial demands of the developing states for the creation of a massive capital development fund to provide capital grants and loans.[1]

The new United States proposal brought about a reasonable relaxation in the tension existing between the divergent groups. A majority of member States now believed that it would be undesirable to establish SUNFED without adequate resources and that it would be better to have the Special Fund proposed by the United States than to postpone all action. It was clear to the representatives of the developing nations that if the committee rejected the U. S. proposal and insisted only on the creation of SUNFED, that Fund would not receive contributions from the United States and without dollars there could be no SUNFED. Though they endorsed the American proposal, they did not hesitate to bring to the General Assembly another draft resolution envisaging the continuation of the campaign for a capital development fund and recommending the inclusion on the agendas of subsequent sessions of the General Assembly "the question of the establishment of the Capital Development Fund as a separate item."[2]

During discussions of the preparatory measures for the Special Fund, a number of references were made to the possibility of transforming this fund into a capital development fund at a later date. The

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[1]Plano, Jack C. and Robert E. Riggs, Forging World Order: The Politics of International Organization, (New York: The Macmillan Company, 1967), pp. 445, 446.

[2]General Assembly, official documents, Doc. A/C.2/L.386.

United States representative readily dispelled this notion. He announced that his government was studying the possibility of the creation of an International Development Association as an affiliate of the Bank.[1] The IDA was to start with a capital four times that which had been recommended for the Capital Development Fund. It was to finance projects of the type recommended by the Committee of Nine on terms more favorable than those of the Bank. In effect, the IDA Proposal was the third attempt by the western nations to provide a substitute for SUNFED. Its affiliation with the Bank would ensure that western dominance was maintained through the weighted voting system. As Gardner[2] states:

> The United States and most other aid-giving countries of the free world preferred to use the IDA for the transfer of public capital on liberal credit terms rather than a capital development fund, not merely because the weighted voting system applied, but also because the experienced management of the Bank would be available to assure the efficient use of IDA resources.

By Resolution 1420 (December 5, 1959) the fourteenth General Assembly supported the establishment of IDA and expressed the belief that the new agency would provide the developing countries with types of financing which had not hitherto been available. IDA duly began its operation on November 8, 1960.

In the establishment of the IDA, the developing nations found new evidence of the determination of the capital-rich world to thwart all efforts toward the realization of a capital development fund along the

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[1] General Assembly, Thirteenth Session, Summary Records, p. 60.

[2] Gardner, Richard, <u>In Pursuit of World Order,</u> (New York: Praeger Publishers, 1965), p. 121.

lines proposed. In its establishment they also found renewed strength to continue their fight. In their view, neither the IDA nor the Special Fund could serve as a substitute for UNCDF. These agencies had not met the qualifications and provisions set forth for the proposed Fund. As the representative of India explained:

> IDA was not regarded by the developing nations as a suitable alternative to a United Nations Capital Development Fund: it did not have the necessary universality and its method of voting was weighted. It reflected the philosophy only of those powers which had the majority. The developing nations wanted a financial organization in which they had an effective voice. They preferred a multilateral fund which ensured that recipient nations could obtain aid without loss of dignity and sovereignty and without political conditions.[1]

Other representatives from developing nations were of the opinion that the unwillingness of the developing nations to channel their assistance through the United Nations was the prime reason for their opposition to SUNFED.[2]

At the fifteenth General Assembly (October-December 1960), the battle over the UNCDF which pitted the numerical strength of the developing nations against the unyielding determination of the industrial ones continued to be waged from positions which had become well entrenched over the years. Although many sophisticated arguments and accusations were fired back and forth, the explanation for the lack of concrete action was to be found in the existence of an unbridgeable

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[1]General Assembly, official records, Fourteenth Session, Second Committee, Summary records, p. 126.

[2]ibid., p. 129.

gap between the two sides' views.[1] As long as both groups insisted on having predominant influence in the organization providing development capital, a compromise seemed unlikely. Despite the opposition of the main donor members, the developing nations scored at least a diplomatic victory when the Assembly with an overpowering majority of 71 to 4 with 10 abstentions, decided "in principle" that a United Nations Capital Development Fund should be established.[2] It also requested a committee of 25 representatives of Member States, designated by the Assembly, to consider preparatory measures, including draft legislation, necessary for the establishment of the Fund.

Committee on UNCDF

The committee was established in accordance with the Assembly's resolution and concluded a series of meetings between May 15 - June 5, 1961. During these meetings it drafted twelve general principles which should be taken into account for the establishment of the Fund. However, the committee was unable to prepare the Statute for the proposed fund and therefore recommended that the General Assembly extend its mandate. Here, again, the representatives of the four economically advanced countries in the committee (United States, United Kingdom, France and Canada) voted against this resolution.[3] Nevertheless, the sixteenth

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[1] International Conciliation, No. 534, September 1961, p. 144.

[2] General Assembly Resolution 1521 (XV), December 15, 1960.

[3] "Twelve Principles Proposed for Capital Development Fund," United Nations Review, Vol. 8, No. 8, 1961, pp. 22, 27.

General Assembly by resolution 1706 extended the mandate of the committee urging it to prepare the necessary draft legislation for a UNCDF and submit the draft statute to its seventeenth session.

Unwillingness of the capital-rich nations to become associated with any new United Nations machinery in this field was strongly dramatized in the spring of 1962 when seven delegations representing Canada, Denmark, France, Japan, the Netherlands, United Kingdom, and the United States refused to participate in preparing a draft statute for the Fund.[1] These delegations pointed out that, in view of their inability to support the establishment of the Fund it would not be appropriate for them to participate in the committee's consideration of the statute. They maintained that IDA had filled the void which might have existed in the field of capital assistance and that efforts should be geared toward the full utilization of existing financial agencies. The creation of a new agency, they contended, would only serve to duplicate existing machinery and complicate the task of coordination between the many agencies of the United Nations. As the United States representative saw it:

> The principal [sic] obstacle to economic growth in many less developed countries was no longer the lack of external financing, but rather the absence of the trained people, the public and private institutions, and the values which are essential for a successful development effort.[2]

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[1]ECOSOC, official documents, Report of the Committee on UNCDF Doc. E/3654.

[2]General Assembly, official records, Draft report of Committee on UNCDF, Doc. A/AC.102/L.1/Rev. 1, p. 54.

Nevertheless, the committee drafted the statute of the Fund.[1] The General Assembly examined the draft statute at its seventeenth session (September-December 1963) and requested the Secretary-General to obtain comments and observations of Member States. The idea of the transformation of the Special Fund or IDA into a capital development fund was again set forth by some Scandinavian countries. In objecting to this proposal the U. S. representative brought to the Assembly's attention the fact that the Special Fund had not met its initial target and that it stood in need of more resources to fulfill its mandate in the field of pre-investment. As regards the IDA, he stated, "its present organization had won full confidence of taxpayers in the United States and other major contributor countries. Any basic changes might well jeopardize its support."[2]

Creation of UNCDF

Undaunted by the continued opposition of the main donor countries the Assembly majority in Resolution 1936 (December 11, 1963) asked the Secretary-General to study the possibility of transforming the Special Fund into a UNCDF and submit his report to the United Nations Conference on Trade and Development (UNCTAD) in 1964. In the light of the Secretariat study the aforementioned conference approved two separate

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[1]ibid., Doc. E/3654.

[2]United State Department of State Bulletin, No. 49, October 7, 1963, pp. 561-563.

recommendations[1] on this question. It recommended that governments participating in the conference take a constructive attitude toward a gradual transformation of the Special Fund. It also suggested that the UNCDF should start its operations at an early date to finance on favorable terms, in all developing countries, national and regional development plans, programmes and projects.

This item was discussed at the twentieth General Assembly (October-December 1965) which subsequently adopted Resolution 2042 (December 8, 1965). By this it reaffirmed the need to extend United Nations economic assistance to the field of investment and it urged the economically advanced countries to undertake measures designed to ensure the beginning of the operations of a UNCDF at an early date. But, the capital-rich nations were not moved by this plea. As Gardner[2] states:

> The United States opposed the creation of a capital development fund by the Assembly, precisely because large amounts of capital aid would be disbursed under circumstances that would not assure the promotion of United States foreign-policy objectives. It is not merely that large amounts of aid might be given to communist countries; it is also that the standards essential to the successful application of external aid would not be likely to be maintained.

After more than a decade of persistent effort, the United Nations Capital Development was established by Resolution 2186 of the twenty-first General Assembly, (December 13, 1966). Its expressed purpose was "to assist developing countries in the development of their

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[1]United Nations Documents, Final Act of UNCTAD, 1964. Doc. E/CONF.46/139, Recommendations A.IV.7 and A.IV.8.

[2]Gardner, pp. 120, 121.

economies by supplementing existing sources of capital assistance by means of grants and loans, particularly long-term loans made free of interest or at low interest rates."[1] Its principles and guidelines for policy were generally similar to those set forth by the Committee of Nine. In its establishment the Assembly majority had indeed scored a political victory. But they realized that the battle was only half-won. They had fought unrelentingly against many odds and even now that the fund had been established, the support of the capital-rich world was not forthcoming. Let me now examine those conditions which so convinced the developing nations of the correctness of their cause and the necessity for a capital development fund.

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[1] International Conciliation, September 1967, p. 131.

CHAPTER II

WHY A CAPITAL DEVELOPMENT FUND?

The reasons why the underdeveloped countries of the United Nations campaigned so resolutely for the creation of a Capital Development Fund are complex but compelling. Two motivating factors stand out: a) a belief that capital shortage is the major obstacle to the development of their economies; and b) a dissatisfaction with pre-existing institutions set up to alleviate the capital shortage. Though the incidence of "characteristics" usually attributed to under-developed economies is not uniform among all such countries, all under-developed economies have in common certain problems. Relative scarcity of capital is probably the most common shared characteristic. Thus, any discussion of the reasons for a capital development fund must begin with an analysis of the role of capital in the development process.

The Role of Capital

In the literature of economic development one of the most important debates taking place is the one dealing with the greater or lesser importance of capital as a factor in the development process. Traditionally, to economists the term, capital, has meant factories, machine tools, buildings and other types of reproducible production equipment.[1]

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[1]Tangri, Shanti S. and H. Peter Gray (eds.), Capital Accumulation and Economic Development (D. C. Heath Company, Boston, 1967), p. 5.

In studies of economic development, the importance of other types of inputs to the process of production, almost taken for granted in richer nations, has required economists to broaden the scope of their concept of capital. Plant, equipment and inventories in industry and agriculture need little explanation; they comprise the traditional concept. Social overhead capital consists of transport facilities, communications networks, public utilities, buildings of government and the equipment necessary for the provision of public services.[1] The acquired skills of the population—human capital—are also recognized as being productive and as necessary for the full utilization of up-to-date plant and equipment. Finally, the word capital also refers to the pecuniary aspect of economic life. So we may refer to physical capital, financial capital and human capital. All of these factors are incorporated in the concept of capital and they all play a part in the development process. For, it is the absence of physical and human capital, and the incapacity to produce them that defines the many deficiencies of the underdeveloped nations.[2]

A significant segment of scholars in the field of economic development agrees that the problem of capital growth is one of the important keys to making a breakthrough in the process of development.

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[1] ibid., p. 7.

[2] Junker, Louis J., "Capital Accumulation, Savings-Centered Theory and Economic Development." Paper presented to the Association for Evolutionary Economics, San Francisco, December 28, 1966, p. 26. Mimeographed.

According to Cairncross,[1] the contribution of capital to economic progress is not confined to the usufruct of additional capital assets, similar to those already in existence. It involves three distinct processes. First, a greater abundance of capital permits the introduction of better methods of production, e.g., freer use of capital instruments, the use of more durable instruments and a change in the pattern of consumption in favor of goods and services with relatively high capital charges per unit cost. Secondly, capital accumulation provides for the widening of the structure of production. It may accompany an extension of the market associated with population growth, more favorable terms of trade, or the discovery of additional resources. Thirdly, capital is required to allow technical progress to occur. It may either finance the discovery of what was not known before, or more commonly, the adaptation of existing knowledge so as to allow its commercial exploitation through some innovation in product, process or material.

While agreeing that capital is important in development, some economists believe that its role has been overemphasized. To them, it is not as crucial and strategic to the development process as postulated in much of the literature on economic development. They contend that many other elements may be as important as—or even more important than—

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[1]Cairncross, A. K., "The Place of Capital in Economic Progress," in Gerald Meier (ed.), Leading Issues in Economic Development (New York: Oxford University Press, 1970), p. 181.

capital and their concurrent emphasis is necessary. Professor Galbraith[1] clearly expresses this view when he states:

> Economists have said that capital and technical knowledge are the missing elements in the development of the underdeveloped nations . . . . Even the most preliminary view of the problem of development shows that effective government, education and social justice emerge as critically important. Government in many of the new states are just in the beginning stages. They operate at a very low level of efficiency . . . . The primary task becomes one of building competent organs of public administration. Where these are weak or indifferent, trained technicians and agricultural scientists are not of much use.

In expressing a similar viewpoint Pepelasis[2] contends that in the nineteenth-century industrialization of societies in which other conditions were favorable, development was not hindered by shortage of capital, either in physical or financial terms. He maintains that the shortage of capital did not seem to prevent entrepreneurs from undertaking a large number of attractive projects. Although he realizes that in many respects contemporary underdeveloped countries are diferent from those of the nineteenth century, he nevertheless concludes that the problem is often one of organization, of training managements and men, and of creating new attitudes towards industrial employment quite as much as of capital creation. It is worth noting that similar arguments were put forth by delegates from the developed nations during the debate on the Fund. In stating his country's opposition to the

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[1] Galbraith, Kenneth, Economic Development in Perspective (Cambridge: Harvard Press, 1962), p. 6.

[2] Pepelasis, Adamantios, Economic Development: Analysis and Case Studies (New York: Harper and Brothers, Publishers, 1961), pp. 96, 97.

Fund, the U. S. delegate on the UNCDF Committee maintained that the principal obstacle to economic growth in many less developed countries was no longer the lack of external financing, but rather the absence of the trained people, the public and private institutions, and the values which are essential for a successful development effort.[1]

The underdeveloped nations on the other hand attach great importance to capital as a necessary and basic element in the process of economic development. This emphasis on capital does not suggest that it is the sole requirement of development. As a United Nations study[2] states:

> It would be an oversimplification to regard economic development as a matter of capital accumulation alone. Other factors are needed in addition, such as entrepreneurship and training of workers, and public administrators. Yet, these are seldom possible without some increase in the stock of capital. Therefore, capital accumulation may well be regarded as the core process by which other aspects of growth are made possible.

The provision of capital involves the availability not only of financial resources but also of capital goods for new investment. The new technology to be applied in increasing production for raising standards of living must embody itself in durable capital goods and other producers' goods to be utilized in the productive process.[3] It is impossible to separate capital from technology. They are basic

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[1]United Nations Doc. A/AC.102/1.1/Rev. 1, p. 54.

[2]United Nations, "Capital Accumulation: The Core Process," in Tangri and Gray (eds.), p. 25.

[3]Hoselitz, Bert F., The Progress of Underdeveloped Areas (Chicago: The University of Chicago Press, 1961), p. 78.

elements which should be applied jointly in the process of production. If economic development is identified with an increase in productivity and per capita output then the plea for capital is a plea not only for an increase in the stock of equipment but a transfer of modern technology, e.g., most efficient methods, tools and skills from the developed to the underdeveloped world. Physical capital and its trained agents are indeed the basic elements in the development process. For, the character of productivity is necessarily limited by the available technical means at hand or, at most, by logical extensions of those existing techniques.[1] In the developing countries, domestic productivity with domestic technology is not sufficient to lead to any significant growth, for it means more of the same kinds of limited tools.

Capital as a pecuniary variable, cannot dynamically cause technological advancement.[2] It can however allow technological advancement to proceed by providing the means whereby efficient methods, tools and skills can be acquired by the less developed nations. Thus, it exercises some control over the technological process. If the whole category of grants, loans and gifts can be viewed as an access system by which the possible transfer of technique from the developed to the underdeveloped world can take place, such things as the terms of loans, the political character of the loaning and giving process, the private investment and trade patterns, etc., all reflect the flexibility or inflexibility of this system.

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[1]Junker, p. 38.

[2]ibid., p. 35.

In the view of the underdeveloped nations, a Capital Development Fund making grants and soft loans could provide the means whereby technological innovations could be introduced and developmental projects launched. But the developed world, bent on protecting its own interests, has continuously vetoed this proposal. As Junker puts it:

> The technologically dominant world can determine, in no small part for the technologically backward nations their accessibility to tools, techniques and sustenance of all kinds. The advanced nation can exert powerful influence in determining the rise or fall of the means for making international claims, in determining which international claims will be honored, which wars of liberation are permissible, which domestic oligarchies shall retain power and which shall be overthrown and by what replacements, and which domestic reforms will be tolerated. All this points to the fact that capital accumulation is never just a matter of tools and skills; it is also a function of the exercise of power which defines the accessibility of the means of life to those who so desperately need them.[1]

Thus the level of technology ultimately determines which countries have political power; and the state of technology combined with the state of political power determines who is the debtor and who is the creditor among nations.[2]

The Shortage

There is no general and objective way to determine the appropriate amount of capital that should be transferred from rich to poor countries. There have been in recent years a number of estimates of underdeveloped

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[1]ibid., p. 39.

[2]Gordon, Wendell C., "Foreign Investments," University of Houston Business Review (Fall, 1962), p. 18.

countries' capital "requirements."[1] In each case the problem of capital shortage arises. Thus, in spite of the lack of reliable data concerning capital resources throughout the world, the scarcity of these resources in underdeveloped countries is accepted by all sides. Statistics measuring such things as the electrical energy per capita, and tractors per head may be only rough indicators of real capital shortage in the developing countries. As such, they have but limited value. In the first place, national statistical techniques often vary considerably and are not equally reliable or always consistent. Difficulties in measurement may lead to the underestimation of the amount of capital and the rate of formation in certain sectors of underdeveloped economies. Nevertheless, even after allowance is made for these omissions, the over-all picture still remains one of capital shortage for developing countries.

The dilemma of the underdeveloped countries can be put quite simply. Higher standards of living (if they are not to be achieved through subsidies from the rest of the world) can be achieved only by the development and more efficient utilization of productive resources. Resources can be developed only by investment and investment demands saving.[2] Income is the primary source of savings and where income per

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[1]Rosenstein-Rodan, P. N., "International Aid for Underdeveloped Countries," Review of Economics and Statistics, No. 43 (May 1961), pp. 107-138; U. N. World Economic Survey 1962, New York, 1963; U. N. "Report on the Capital Needs of Less Developed Countries 1964," Doc. A/AC.102/5; UNCTAD, "Financial Resources for Development, Economic Growth and Development Financing: Issues, Policies and Proposals," April 1972, Doc. TD/118.

[2]Black, Eugene, "Can the U.D.C.'s Catch Up?" Journal of International Affairs, Vol. 16, No. 2, 1962, p. 193.

capita is low, the annual rate of voluntary saving per capita will also tend to be low.

Underdeveloped countries suffer from the difficulty that real incomes per person—far from increasing at uneven rates—scarcely improve at all. Instead, they remain at the level of poverty.[1] The great mass of the people receive incomes which suffice only to buy the bare necessities of life, with no margin for saving. Only a very small group in upper classes are potential savers and hence potential investors in projects for development. However, even among the small groups of comparatively wealthy individuals, there is the tendency to maintain their social position in part by what Thorstein Veblen called "conspicuous consumption," which involves spending on current living expenses virtually everything they receive in income.[2] When they invest, it is often in the more stable economies of the industrialist states. Thus domestic accumulation of capital in the poor countries is bound to be slow.

To recapitulate, economic development requires and depends on inputs of capital. If such is to be accumulated so as to lead to increased output and productivity, resources must be saved and invested (allocated to the production of plant and equipment). The source of voluntary saving is intricately bound up in social attitudes towards

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[1]Buchanan, Norman S. and Howard S. Ellis, Approaches to Economic Development (Philadelphia: William F. Fell Company, 1955), p. 51.

[2]Alexander, Robert J., A Primer of Economic Development (New York: The Macmillan Company, 1962), pp. 87, 88.

economic mobility, and the level of income.[1] For low-income economies operating at the level of subsistence and faced with the problem of an ever-increasing population, a very large proportion of resources is used for consumption, leaving only a small margin for saving. If a society already operative at starvation levels tries to refrain from consuming a portion of its meager allowances, its capacity to produce goods may diminish even more dramatically. For, no industrial system can be built from a lowering of consumption below the level necessary to sustain life.

Of course, the progress of any developing society must depend primarily upon its own efforts. The case has been made that some underdeveloped countries can increase domestic savings and capital formation by adopting the right kind of fiscal measures and by providing people with incentives to work harder and more efficiently.[2] It has been pointed out that not only is it the lack of advanced tools and skills in UDC's which defines the low level of development, but also particular consumption practices which lead to a misapplication of resources resulting in low levels of productivity and growth. Given their population problems, their primitive production network and other hindrances, there is a limit to the amount that these poor nations can do for themselves. Beyond this limit, their hope must lie in foreign assistance. Without resort to assistance from outside the economy, the means by which they can effect a positive rate of productive capital

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[1]Kindleberger, Charles P., Economic Development (New York: McGraw Hill Book Company, Inc., 1958), p. 55.

[2]Black, Eugene, "Can U.D.C.'s Catch Up?" p. 194.

formation on their own are rather limited. Not only is the underdeveloped nation unable to provide turbines, dams, automobiles, modern hospitals, steel mills, machine tool industries, etc., it cannot even provide the new technology needed for serious agricultural revision for greater productivity.[1] For this it must turn to the industrial societies.

It is in comparison to the developed world that the plight of the poor nations becomes more manifest. For the industrial societies, the choice is between great and greater levels of consumption as different ways of organizing and using resources are contemplated. For the underdeveloped world, it is a choice between starvation and death on the one hand and change and growth on the other. The annual income per person averages only $100 in the underdeveloped countries, whereas in the highly developed countries such as the U. S. the average is $2,000. Representing 60 per cent of the world's population the underdeveloped countries receive only 9.2 per cent of the world's annual income as compared with 26.2 per cent for the United States and 52.2 per cent for Europe.[2] According to a study made by the UNCTAD Secretariat[3] the estimated 1968-1969 increment in per capita G.N.P. was only $7 for the developing countries as against $56 estimated for the socialist countries

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[1] Myrdal, Gunnar, The Challenge of World Poverty (New York: Random House, Inc., 1970), p. 127.

[2] "No Muscle Is the Message," Commonweal, Vol. 25, January 7, 1972, pp. 316, 317.

[3] UNCTAD, "Review of International Trade and Development 1969/1970," April 1972, Doc. TD/B/309, p. 6.

and $91 for the developed market economy countries. With 60 per cent of the world's population (excluding mainland China) and almost 80 per cent of the annual increment in population, developing countries generate only 12 per cent of world G.N.P. During the much heralded U. N. Development Decade of the 60's, per capita income in the developed world increased by $650 while for the poor countries the augment averaged $40. The great bulk of developed nations had rates of growth of about 5 to 6 per cent a year while the underdeveloped nations had growth rates of about 2 to 3 per cent a year.[1] To bring about a significant rise in the rate of economic growth of the underdeveloped nations and close the widening gap between their income and that of the developed world, it is essential that the developed world provides them with a substantial volume of capital resources. According to a U. N. report[2] the total requirements of the underdeveloped countries for foreign "development capital" were estimated at about $5.7 billion per year during the first two five year periods—1962-1971—and at about $4.7 billion per annum in the last five year period 1972-1976.

In an attempt to deal with the problem of capital shortage in the UDC's, the United Nations has, through its member States, established particular institutions responsible for the transfer of capital to the underdeveloped world, i.e., International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), and

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[1]Ward, Barbara and P. T. Bauer, Two Views on Aid to Developing Countries, (London: Institute of Economic Affairs, 1966), pp. 8-10.

[2]U. N. Doc. A/AC.102/5, ibid., p. 73.

International Finance Corporation (IFC). These will be discussed in subsequent pages. In addition, the developed nations have also attempted to deal with this problem outside the United Nations framework by providing bilateral aid. The effort put forth thus far has been insufficient to meet the task. Little or no progress has been made. According to a U. N. report,[1] the flow of capital received by developing countries of Africa, Asia and Latin America, although higher in 1964 than in previous years continued to lag behind the amount that could be effectively used. In comparison with the total output of the developed market economies, the flow of funds to the developing countries and multilateral agencies was 0.84 per cent in 1961, and declined to 0.65 in 1964. Indeed, the goal set during the Development Decade of the 60's, that capital flows should reach 1 per cent of the combined national incomes of developed nations was farther from realization in 1964 than in 1961 when the target was set. The disparity between the developed countries' gross national product (GNP) and their provision of aid is still growing. As Paul Hoffman[2] emphasized, when "repayments on loans, interest payments, dividends, private investment, and other relevant items" were deducted, "the actual burden of development assistance on the world's tax payers was only about $3.2 billion in 1966." In that year the GNP of the major donor countries totaled some $1,500 billion, and they spent $150 billion for military purposes.

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[1] U. N., "International Flow of Long-Term Capital and Official Donations, 1961-1965," in U. N. Monthly Chronicle, Vol. 3, June 1966, pp. 37, 38.

[2] International Conciliation, No. 569, September 1968, p. 117.

A review of international trade and development, 1969-1970, by UNCTAD[1] indicates that the net flow of official and private financial resources from the developed countries and multilateral agencies to developing countries rose slightly (by 2 per cent) in 1969. At $12.4 billion, this flow represented only 0.67 per cent of the gross national product of the developed world, a decrease from 0.73 per cent in 1968. This involved a shortfall of well over $5 billion in capital flows as compared to the target of 1 per cent of GNP. In 1970, net disbursements of official development assistance from developed market economy countries to developing countries and multilateral institutions amounted to $6.7 billion or to 0.34 per cent of the combined GNP of these nations. Official statistics covering financial disbursements from the centrally planned economies are not readily available. However, according to reports from the recipient countries, bilateral commitments from this area reached a total of $776 million in 1969, an increase over previous years.[2] UNCTAD[3] reports that this figure more than doubled between 1969-1970. However, the prospects for an increase in total flows to developing countries remain in doubt in view of uncertainties regarding assistance from the U. S. which accounted for 45 per cent of official development assistance from the market economy countries in 1970. The

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[1]UNCTAD, "Review of International Trade and Development, 1969-1970," April 1972, Doc. TD/B/309, pp. 3, 4.

[2]UN Statistical Yearbook 1970 (New York: Statistical Office of U. N., 1971), p. 710.

[3]UNCTAD, "Financial Resources for Development: External Development Finance," April 1972, Doc. TD/118/Supp. 2., p. 28.

ratio of U. S. official development assistance to its GNP declined steadily over the decade of the 60's and amounted to 0.31 per cent in 1970.[1] If the developing countries are to increase their rates of growth and proceed with the task of development, there will have to be an increase in the volume of capital being transferred into their world.

Limitations to the present financial aid for development provided by industrialized countries lie not only in the quantity of capital being provided but also the quality and the channels through which it is being transferred to the underdeveloped world. In the view of the poor nations, too much of the capital assistance being offered is provided in terms of repayment which will impose a severe burden on their balance of payments. It is not enough, they contend, to provide loans to pay for development projects; the loans must be on terms which permit repayment and the payment of interest at a time and at a level which will not cripple development subsequently. Thus the insistence on the establishment of a UNCDF for the provision of loans on a long-term, low-interest basis.

As regards the channels of capital assistance, underdeveloped nations have shown a preference for multilateral institutions, particularly those which affiliate with the UN. Given bilaterally, they believe that aid is used as an instrument of foreign policy. In essence, it is used in assisting other nations to attain economic, military, political, and social conditions that will contribute to a world order conceived

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[1]UNCTAD, Doc. TD/118, ibid., p. 6.

to serve the ultimate interests of the donor country.[1] Thus it is used as a means of influencing domestic and foreign policies of the recipient nations. Underdeveloped nations also resent the many strings and conditions tied to most bilateral aid procurements.[2] The charge of neocolonialism frequently made by the developing nations against aid donors stems from these beliefs. Too often in donor countries, they contend, political considerations tend to influence decisions concerning assistance. The United Nations, in the UNDP, has the advantage, in determining projects it will assist, of having no national political, military or commercial goals control the decisions made.[3] Because of the belief that the United Nations has no special interests, the poor nations are prepared to respect its advice, and accept the assistance and supervision of the UN administration and coordination of external assistance without any affront to their national pride and dignity. A second advantage is that the United Nations forum includes both rich and poor countries. Thus, it would give poor countries a sense of participation in the processes and decisions of capital assistance programs under the aegis of the United Nations. For the capital rich nations, the advantage in dispensing development funds through the

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[1]Montgomery, John D., Foreign Aid in International Politics (Englewood Cliffs, N. J., Prentice-Hall, Inc., 1967), p. 23.

[2]Benham, Frederic, Economic Aid to Underdeveloped Countries (London: Oxford University Press, 1961), pp. 86-96.

[3]Pearson, Lester B., Restless Nations: A Study of World Tensions and Development, The Council on World Tensions, Inc. (New York: Mac-Foaden-Bartell Corporation, 1962), pp. 87, 88.

United Nations lies primarily in having at their disposal the rich experience of its specialized agencies. "In addition," Kirdar states, "donor countries would win greater international influence and prestige and counter the criticisms which they are now facing."[1] Finally, such an action would gradually build a sense of world community with the rich and poor working together as partners in development.

Several autonomous agencies have been created to deal with problems of development within the United Nations system. The financial agencies affiliated with the United Nations that provide capital assistance to the less developed countries on a global basis are the agencies of the World Bank Group (IBRD, IDA, IFC). Other multilateral agencies providing funds of this type are regional in scope, such as the Inter-American Development Bank, the European Development Fund, the European Investment Bank and the recently created African Development Bank. Other multilateral agencies which are global in scope provide technical rather than financial assistance. To the extent that the U. N. Special Fund does provide assistance, the capital is for "pre-investment" activities such as surveys of resources, rather than for capital investment projects as such.[2] It is necessary at this point, to analyze the policies of the World Bank Group and determine the extent to which they have succeeded in answering the capital needs of the underdeveloped countries. Findings will subsequently be related to the decision of the U. N. majority to create a UNCDF.

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[1]Kirdar, p. 320.

[2]Friedmann, Wolfgang, George Kalmanoff, and Robert Meagher, International Financial Aid, (New York: Columbia University Press, 1966) p. 91.

The World Bank Group

The IBRD was created in 1946 with the main purpose of making available world-wide loans to governments and, under governmental guarantee, to private persons such as to business, industrial and agricultural enterprises in the territories of its member states. Membership in the International Monetary Fund (IMF) is a necessary condition for membership in the World Bank and its affiliates. The feeling at the time of the Bank's creation was that the long-run financing it would provide could not be effective without the reasonably stable standards of international exchange to be fostered by the IMF.[1] The communist bloc countries are not among its more than one hundred member states.

The Bank's lending or its participation in the provision of financial capital is limited to its member states and their political and economic subdivisions. Loans made or guaranteed by the Bank are, except in special circumstances, for the purpose of specific projects of reconstruction or development. Its loans are not granted in support of over-all country-development programs.[2] Thus the semi-developed countries like India or Brazil which have submitted economic projects in accordance with the standards of the Bank have profited more from the Bank's resources than the poorer countries. The Bank does not only satisfy itself that a proposed project is economically justifiable, but also requires, as an additional condition that the project should have

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[1]ibid., p. 92.

[2]Blough, Roy, "The World Bank Group," International Organization, Vol. 22, Winter 1968, p. 158.

a productive purpose. On this point Kirdar states:

> Although this is not explicitly defined in its agreement, the Bank, deriving it from the articles which set out its purposes—e.g. to facilitate the investment of capital for productive purposes—has made a practice of financing only projects believed to have a productive capacity and has attempted to develop the term and the interpretation of what project should be considered as "productive." According to this practice, community projects such as housing, hospital, schools, etc. which are essential needs of the underdeveloped countries and the fundamental elements of economic development, are not considered as "productive" and not financed by it.[1]

In essence, this policy has prevented the Bank from providing social overhead capital desperately needed by the poor nations. In making a loan, the Bank is under the obligation to pay due regard to the prospects that the borrower will be in a position to meet its obligations under the loan. With interest rates ranging between 3 3/4 and 6 1/2 per cent, and with the possibility of further increase in these rates, the poor nations cannot afford to borrow.[2] In criticizing the Bank's policy Shonfield[3] states:

> . . . the consequences of the World Bank's acceptance of the logic of its position as a banker has been that the semi-developed countries, with their anticipated ability to obtain capital on the basis of their own credit in international markets in the fairly near future, have been allowed "to get away with things" that are strictly denied to the poor, untrustworthy and underdeveloped countries.

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[1]Kirdar, p. 120. For a more detailed explanation of this policy see The World Bank Policies and Operations, prepared by the Staff of the Bank and published by IBRD, June 1960, Washington, D.C., p. 40.

[2]____________, "Charity at 6 1/2%," The Economist, Vol. 221, Oct. 1, 1966, pp. 70, 71.

[3]Shonfield, Andrew, The Attack on World Poverty, (London: Chatto & Windus, 1960) pp. 114, 115.

Of grave significance to the quest for a UNCDF are the terms on which the Bank's loans are given. Millikan and Blackmer[1] agree that the broad purpose of capital assistance is to encourage the recipient countries to maximize their efforts toward development. Its effectiveness depends not only on the amount and kind of assistance made available but also—and importantly—on the terms and conditions under which foreign capital is offered. Lending policies of the Bank are modelled to a great extent on the best practices of private investment banking.[2] While its principal aim is to promote the welfare of all its members, it operates according to strict economic principles which have served to limit borrowing by the underdeveloped countries.

During the formative years of the Bank, a greater portion of its lending went to the highly developed countries for reconstruction purposes as compared to the lass developed areas. It has, since then, endeavored to provide more funds for development purposes. Of the total Bank loans of $5.7 billion advanced up to the middle of 1961, about $4 billion represent loans given for development purposes.[3] Of the total Bank loans of $16 billion given during the period 1947-1971, $12.3 billion went for development purposes.[4] Thus the Bank has succeeded in channeling a greatly increased volume of funds from world capital markets into developing countries.

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[1]Millikan, Max and Donald L. M. Blackmer, The Emerging Nations, (Boston: Little, Brown & Company, 1961) p. 118.

[2]Black, Eugene H., "Financing Economic Development," U. N. Review, Vol. 8, No. 2, p. 20.

[3]U. N. Doc. A/AC.102/5, p. 93.

[4]Europa Yearbook, World Survey, 1972, Vol. 1, p. 36.

However, its major shortcoming stems from its terms of lending. According to a recent UNCTAD report (April 1972)[1] borrowing costs rose from 5.52 per cent on the average in 1967 to 6.47 per cent in 1969. While some developing countries are no doubt in a position to pay current interest rates without adverse effects on their balance of payments, the majority of these countries need access to borrowing on much softer terms. The indebtedness of these nations has become a matter of great concern. It has created a situation in which loans to underdeveloped nations are being diverted from building dams and raising food production or doing something else that might improve living standards, to the "dead-end task of debt repayment."[2] The UNCTAD Secretariat report[3] indicates that the total external public indebtedness of eighty developing countries increased at an average annual rate of 14 per cent. From $21.6 billion in 1961, it grew to $59.3 billion in 1969. During the same period, service payments on interests and amortization increased at an average annual rate of 9 per cent and total service payments amounted to $5 billion in 1969 and $5.9 billion in 1970. Amortization and interest payments rose from 39 per cent of the inflow of loans and grants in 1965 to 49 per cent in 1969. These rates of increase compare with annual growth rates of 6.6 per cent for exports and about 5 per cent for income in the underdeveloped nations as a whole. Projections

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[1]UNCTAD, "Liberalization of Terms and Conditions of Assistance," April 1972, Doc. TD/B/L.3/76, p. 2.

[2]"By and For the Rich," <u>Nation</u>, No. 205, November 27, 1967, pp. 549, 550.

[3]UNCTAD, "Financial Resources for Development: Debt Problems of Developing Countries," 1969, Doc. TD/118/Supp. 6, p. 3.

indicate that, in the absence of new measures to ease the terms of assistance, a larger number of developing countries may be faced with debt difficulties in the 1970's than in the 1960's. Net lending to the poor countries might well become negative after 1975 if such terms persist.[1]

In view of these estimations, the majority bloc in the General Assembly felt the need to take some positive steps towards the establishment of an access system whereby their domestic capital resources could be supplemented by the inflow of external financial capital on terms which would not hinder development efforts subsequently. Though many of the underdeveloped nations are members of the World Bank, its decision-making apparatus is such that they have no effective voice in policy-making. All the powers of the Bank are vested in the Board of Governors which consists of one governor and one alternate appointed by each member of the Bank. The power of each member lies in the amount of shares to which it subscribes. Each member has 250 votes and for each additional subscribed share of capital stock ($100.00) they possess one additional vote.[2] The Bank thus has a weighted voting system[3] which is completely different from the system—one vote, one nation—accepted by most U.N. agencies. Although the Bank's articles of agreement do not seem to stipulate a favorable treatment among its members,

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[1]International Conciliation, No. 564, Sept. 1967, p. 125. See also UNCTAD, Doc. TD/118, p. 12.

[2]Kirdar, p. 107.

[3]McIntyre, E., "Weighted Voting in International Organizations," International Organization, Vol. 8, pp. 484-498.

they grant to the largest shareholders an automatic and ruling majority which is another kind of veto. The United States and the United Kingdom together exercise 39.38 per cent of voting power.[1] With the participation of the next two largest share holders (France and West Germany) they can together easily control the Bank and hold an operative veto power over any proposal which displeases them. Not only does the Bank not include any communist member in its body (except Yugoslavia) it is also an institution steered by the leading countries of the west. Lacking the financial backing, its members from the underdeveloped world are incapable of initiating changes in its lending policies which would support their development efforts.

Realizing that the rates of lending by the Bank were a hindrance to their economic progress, and also that its weighted system of voting allowed the wealthier members predominant power in the making of its decisions, the underdeveloped nations sought refuge in their campaign for a UNCDF. Not only would the new agency's membership be open to all member states of the United Nations, but also—and more importantly—it would be governed by the principle of one nation one vote, with no regard for ideological or financial differences. In essence, the UNCDF was to become a truly universal agency rather than a reflection of a particular power bloc in the international arena. Though, by virture of their greater wealth, the more industrial or advanced nations were expected to make a major contribution to the Fund, all

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[1]Gordon, Wendell C., International Trade,(New York: Alfred A. Knopf, Inc.) 1965, p. 503.

members were to participate equally in the making of policies regarding the allocation of its resources.

The determination of the underdeveloped nations to establish a UNCDF was equally matched by the opposition of the developed nations (particularly those of the west) to the creation of such a fund. Thus during the course of the UNCDF debate, the developed nations consented to the establishment of the IFC and the IDA which, it was believed, would undertake those activities which could not be carried out by the Bank without some fundamental changes in its Articles of Agreement. It is worth noting that the developed nations of the west had insisted that affiliation with the Bank be a precondition for the establishment of these agencies. Subject to the rules of the Bank, these agencies were to acquire its voting system. In essence, the Western nations would be assured of the power to veto all proposals considered to be inconsistent with their interests.

Established in 1956, the expressed purpose of the IFC was to further economic development by encouraging the growth of productive private enterprise in member countries, particularly in the less developed areas.[1] It provides risk capital for financing of projects in the private sector without government guarantees. It deals directly with private business people and does not invest in undertakings which are owned or managed by governments. As such, it is limited to the financing of private enterprise rather than public utilities. It is thus exempt from the provision of social overhead capital desperately

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[1]Friedmann, et. al., p. 91.

needed in underdeveloped nations for the erection of schools, hospitals, etc. In practice, the Corporation has invested only in enterprises which have a predominantly industrial character.[1] The funds of the Corporation are released only when it has been assured that the private investor can provide a major share of the capital needed for investment. To the extent that private business people in the less developed nations are able to accumulate the necessary investment funds to be supplemented by the Corporation, and foreign private enterprises are willing to invest in the developing areas, the Corporation could serve as an effective means for the transfer of capital and skills to the poor countries. But, as already noted, amongst the people of the underdeveloped world the propensity to save and invest is very low because of the low level of income. Secondly, underdeveloped nations have found it difficult to attract large amounts of foreign investment at this stage of their development. Political instability so prevalent in the underdeveloped world and fears of expropriation have served as limiting factors to foreign private investment. Private capital movements are confined largely to the developed sectors of the world economy.[2] Today the largest potential investor, the United States, has a vast, prosperous internal market and is subject to no great pressures to invest. On the merits of investment Evans[3] states:

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[1]Kirdar, p. 183.

[2]Schweinitz, Karl de, "The Needs of Undeveloped Economies," Current History, Vol. 51, No. 299, August 1966, pp. 72-77.

[3]Evans, Peter B., "National Autonomy and Economic Development: Critical Perspectives on Multinational Corporations in Poor Countries," International Organization, Vol. 25, 1971, pp. 678, 679.

> Spreading capital from rich to poor is one function classically attributed to international investment, but on examination the direction of the capital flow appears in doubt. A look at the current profitability of American foreign investment suggests that higher rates of return are still achieved on investments in poor countries. The rate of return on investments in LDC's in 1969 was more than double the rate of return in developed countries—8.3 for developed and 18.3 for LDC's. Recent examinations of financial relations between the United States and Latin America also suggest that LDC's end up exporting more funds than they receive.

Higgins[1] contends that even if the lending and borrowing countries made every reasonable effort to encourage foreign investment in underdeveloped areas, the flow of private capital is not likely to fill the gap between the capital requirements and domestic financial resources, current or potential. Some role will remain for foreign aid. Beyond this, the limits of specialization placed on the IFC, i.e., investment only in private sector, prevent this agency from effectively meeting the needs of the poor countries.

As the "soft loan" affiliate of the Bank, the International Development Association's expressed purpose is to provide finance to meet the important development requirement of the underdeveloped countries on terms which are more flexible and bear less heavily on their balance of payments than those of conventional loans.[2] The provisions governing its financing have been drafted in very general terms and are very flexible, in order to give the Association wide latitude to shape its

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[1] Higgins, Benjamin, Economic Development: Principles, Problems and Policies, New York: W. W. Norton & Company, Inc., 1959, p. 77. See also Black, E. R., "Can the UDC's Catch Up?" p. 193.

[2] Black, Lloyd D., The Strategy of Foreign Aid, New Jersey: D. Van Nostrand Company, Inc., 1968, p. 108.

financing on almost any terms and for a broad range of purposes. Its authorization provides for the financing of specific projects which will make an important contribution to the development of its less developed members whether or not these projects are revenue producing.[1] Eligibility for the Association's financing has been limited to its member countries which are located in less developed areas of the world.

IDA lending has been on relatively generous terms. It grants 50-year loans bearing no interest, except a small annual "service" charge, and requiring no governmental guarantee. Loans are not "soft," however, in one highly significant respect to the borrowing countries—they must be paid off in "hard" convertible foreign exchange. This usually means American dollars or a currency freely convertible into dollars. Between 1960-1966, the IDA had made net commitments of about $1.4 billion.[2] By June 1971, it had extended 274 credits totalling $3.3 million to 58 member countries of the underdeveloped areas.[3] However, the Association has been facing the major problem of expanding its reserves. It does not provide financing in the form of grant-in-aid, but its resources are meager in relation to the amount of capital that would be demanded at zero interest. Although the IDA Articles of Agreement authorize it to borrow in financial markets, the interest-free

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[1] Kirdar, pp. 165-266.

[2] Blough, p. 155.

[3] Europa Yearbook, 1972, p. 33.

terms of its development credits give it no basis for borrowing at this time. All its funds have come from governments, from transfer of income from the World Bank, and from IDA's net income. Some developed nations of the west have been willing to make supplementary contributions to the Association's resources, e.g., Sweden and the United States.[1] Because of the high interest rates of the Bank, its lending operations have dropped. Possessing credit that allows it to raise all the funds it needs in the world's capital markets, the Bank has been able to maintain surplus reserves. IDA, on the other hand, because of its lending policies, has had to continuously stress the need for substantial addition to its resources. Many of its members have been reluctant to make major contributions to the Association's resources citing the increased burden on taxpayers and deficits in the balance of payments as limiting factors.[2]

Thus the factors which limit the Association's ability to meet the capital needs of the poor nations lie on the demand and supply side of its resource line. In considering the policies of agencies such as the World Bank Group, the central fact to note is that in general the institution can do only what its governing members are willing to have it do. The activities of the Bank and its two affiliates have benefited almost every developing state, and indications are that the pace of its lending operations will accelerate over the next decade. But the key objective of the great majority of the developing states is to set

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[1] "Not Enough for the Needy," <u>The Economist</u>, Vol. 208, Sept. 21, 1963, pp. 1038-1042.

[2] Blough, p. 175.

up a capital development fund with the cooperation of the advanced states. The economic capacity of the industrial countries to support a much larger flow of aid cannot be questioned. The constraints are mainly political, contributions of governments depending on how important the governments believe the economic development of less developed countries to be and on the willingness of their taxpayers to bear the cost. Thus the poor nations have advocated the establishment of a UNCDF where representation of rich and poor will be equitable.

Another possible source of wealth for the emergent economies is, of course, their export of raw materials or trade surpluses. The developing nations fit into the category of export economies dependent upon the sale of primary products. As such they are subject to annual and cyclical variations in the total real value of exports.[1] In the course of world economic fluctuations prices of manufactured goods have proved more stable than prices of raw materials and foodstuffs. Thus, if the developing nations are to obtain a reasonably secure prosperity, they must have some degree of certainty that they can sell at reasonable prices and in reasonable quantity both the traditional exports of their primary produces and the products of their new industries. But, with output of most primary products persistently running ahead of world demand, commodity prices are notoriously unstable, while protectionism erects barriers which leave the developing countries with poor prospects of exporting their new manufactures as these become competitive.[2]

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[1] Buchanan & Ellis, p. 383.

[2] Black, E. R., "Can UDC's Catch Up?" p. 200.

UNCTAD Secretariat report[1] made in April 1972 indicates that since the beginning of the decade, the terms of trade of developed countries have been remarkably stable, tending towards a slight long-term improvement. In contrast, the terms of trade of developing countries have fluctuated considerably and followed a downward trend. Between 1960-62 terms of trade of developing countries declined by 5 per cent but partly recovered in the two subsequent years. The recovery, however, proved to be of short duration. In 1965 it fell by 4 per cent, by 3 per cent in 1967 and by 7 per cent in 1968.

There are several reasons why the pattern of trade does not favor the developing nations. First, the demand for their primary commodities is vulnerable to the effects of technological progress in the advanced countries. A substitute might replace a natural product previously imported (synthetic rubber and fiber are good examples), or improved techniques may make it profitable to exploit domestic mineral deposits of lower quality which were once considered unprofitable. Secondly, the advanced countries are shifting their industrial expansion from the light industries, which are heavy consumers of raw materials per unit of production, to the heavy industries, such as the engineering and chemical industries, which require a much smaller proportion of raw materials. Moreover, their economic development is characterized not only by the constant growth of secondary industries but also by the rapid expansion of the tertiary (services) industries

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[1]UNCTAD, "Review of International Trade and Development, 1969," April 1972, Doc. TD/B/257/Rev. 1, p. 20.

which create no demand for raw materials. A rapid increase in the demand for raw materials is also checked by the economies in industrial production which are made possible by modern technology; the systematic recovery and reprocessing of metals is an example. The rise in the living standards of the industrial nations means an ever-incresing demand for manufactured consumer goods and services rather than for a greater quantity or even a greater diversity of agricultural products.[1] These adverse conditions convinced the developing nations of the necessity of a UNCDF. Let us now assess and evaluate the activities of the UNCDF and relate these to its proposed functions as written in its Statutes.

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[1] Kulski, Wladyslaw W., International Politics in a Revolutionary Age, (New York: J. B. Lippincott Company, 1964) p. 213.

CHAPTER III

THE FAILURE OF UNCDF: AN ECONOMIC DEFEAT

Dissatisfaction with the International Bank grew in the developing world during the 1950's and 1960's because of, inter alia, the terms of its lending, the scarcity of loanable funds, and the dominant decision-making position of the developed nations. The failure of the Bank to meet their capital needs was a continuing factor in the long fight to establish a Capital Development Fund. In spite of the vehement opposition of the developed capitalistic nations and in spite of the establishment of the Special Fund, the IFC, and IDA as substitutes for the Fund, the developing nations continued the battle which culminated in the establishment of the Capital Development Fund by General Assembly Resolution 2186(XXI) of December 15, 1966. But resolutions are one thing, and active responses to them are another. National governments almost always attempt to form and carry out highly independent foreign policies. Their membership in international organizations, i.e., U. N., imposes characteristic tension when decisions made in these bodies are believed to be inconsistent with their national interests. On this point Gordenker[1] states:

> The deliberative organs of international organizations mass produce recommendations, proliferate research programs, multiply conferences and unroll what seems an endless stream of field operational programs. These recommendations do not necessarily coincide with the policies

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[1] Gordenker, Leon, "The New Nationalism and International Organizations" in International Studies Quarterly, Vol. 13, No. 1, Spring 1969, pp. 31, 32.

> of a given government. The gap between the enunciation of policies, as if an international community existed and could be managed centrally, and the reaction of individual governments acting as if they could decide all their policies using "national interest" as the sole guide to their courses, measures the degree of tension which develops between international organizations and member states.

The case of the Capital Development Fund is a classic one in which an organ of the United Nations has created an agency against the wishes of its more powerful members, thus plunging it into an environment unfavorable for its operation and growth. Because the political will necessary to make the Fund succeed is lacking on the part of the major powers, its road has been slow and full of frustrations. The political victory of the Assembly majority has indeed become a hollow one. This chapter will be given to an analysis of the activities of the Fund in an attempt to determine the extent to which it has failed to fulfill the hopes of its advocates, the developing nations, and why it has failed.

Any assessment or evaluation of the Fund must begin with a restatement of its purpose. Its functions are clearly defined in its statute and embodied in General Assembly Resolution 2186(XXI). Because it is only against this yardstick that one can truly measure the success or failure of the Fund, these functions will be briefly summarized. Article I of Resolution 2186(XXI) states:

> The purpose of the Capital Development Fund shall be to assist developing countries in the development of their economies by supplementing existing sources of capital assistance by means of grants and loans, particularly long-term loans made free of interest or at low rates of interest. Such assistance shall be directed towards the achievement of the accelerated and self-sustained growth of the economies of those countries and shall be oriented towards the diversification of their economies, with due regard to

> the need for industrial development as a basis for economic and social progress.

Its assistance is to be given to any member government of the United Nations or of its related intergovernmental organizations, a group of such states, or an authorized entity within such a state. Its founders also authorized that close liaison be maintained with other aid giving sources such as UNDP, UNIDO, and the regional development banks. In direct opposition to the project-oriented approach of the World Bank Group, the Fund's assistance was to be given to support general development plans or to meet general development requirements.

In addition, its statute fully describes the institutional and financial arrangements by which the Fund is governed. The CDF is an autonomous body of the General Assembly. A Managing Director reports to an Executive Board of twenty-four representatives elected by the Assembly for a term of three years. Control of all policies and operations and final authority for the approval of grants and loans are vested in the Executive Board on which the developed and developing countries are to be equally represented. As regards its resources, these are to be provided primarily by voluntary contributions. Though there is no specific figure in the resolution setting a minimum size of resources or level of capitalization of the CDF, it nevertheless states explicitly that the bulk of the contributions should come from the economically more developed countries in a readily and economically usable form. These are to be replenished at annual pledging conferences. The Secretary-General is also authorized to solicit contributions from non-governmental sources provided such contributions are not limited to specific recipient countries or for specific projects.

In establishing the CDF the majority bloc in the twenty-first General Assembly had expected that it would begin operational activities early in 1968. Its first pledging conference had been scheduled for October 1967. Its Executive Board was to be elected by the twenty-second General Assembly and the Secretary-General was to appoint a Managing Director to assume office on 1 January 1968.[1] Thereafter, the Fund was to begin the execution of its duties. But the poor results of its first pledging conference made it necessary to alter these plans. Of the more than 120 member states of the United Nations, only 64 had chosen to be represented at the conference. Of these, only 22 governments (all representing developing nations except Yugoslavia) announced pledges amounting to a total of $1.3 million.[2] The developed nations of the West and the East boycotted the conference.

In view of the initial lack of financial resources, the General Assembly in Resolution 2321(XXII) of December 15, 1967 requested the Secretary-General to consider the possibility of using the management of the United Nations Development Program (UNDP) on a provisional basis; its administrator would administer the Fund by performing the functions of the Managing Director; its Governing Council would perform the task of the Executive Board of the Fund; and pledging conferences for both UNDP and UNCDF would be held simultaneously.[3] Thus, the original mandate

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[1] International Conciliation, No. 564, September 1967, p. 132.

[2] General Assembly, official records, "UNCDF First Pledging Conference," October 30, 1967, Doc. A/CONF.37/2. See also U. N. Monthly Chronicle, Vol. 4, November 1967, pp. 43, 44.

[3] International Organization, Vol. 22, Summer & Autumn 1968, pp. 753, 754.

of the Fund had to be modified and provisional mandate given to the UNDP administration. Its status was changed from an autonomous agency to an agency administered by the UNDP. Though the basic objectives, functions and guiding principles of the Fund had been maintained, it was clear that continued boycott by the capital-rich world would greatly impede its progress and in all likelihood prevent its objectives from being achieved.

The limitations arising from the lack of financial support for the CDF were pointed out by the UNDP administrator. In his report[1] to the Governing Council, he indicated that as of May 1, 1968, total pledges amounted to $1.3 million, but none had been paid in. The Fund's establishment had been based upon the consideration that the developing countries could usefully absorb substantial amounts of capital over and above those which the existing financial institutions could provide. In view of the fact that these same nations, most of them in acute balance of payments difficulties, were the primary source of the resources pledged to UNCDF, a fundamental issue would appear to arise as to whether their interests and basic objectives and principles of the Fund would be properly served by authorizing operations on this basis alone. This, in essence, would amount to no more than "an uneconomic redistribution of resources" contributed primarily by the developing countries. Unless the major industrial powers gave major financial support to the Fund so as to permit it to initiate independent operations, its role would have to be limited to joint-participation in

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[1]United Nations Official Documents, UNDP, "Report of Administrator," 6th Session of Governing Council, Doc. DP/L.82.

high priority development loans extended by existing international financial institutions—particularly the regional development banks. Under this method, the loan agreement provides that the lending institution may allot a participation in the loan and that the payments of amortization of and interest on, the portion of the loan represented by the participation shall be made to the lending institution which has sole responsibility for the administration and enforcement of the loan. Thereupon, UNCDF would finance the portion of the loan allotted to it. After remittance of the whole amount corresponding to its participation, UNCDF would receive a participation certificate. While normally the recipient would undertake the financing required in local currency, the loan agreement would provide for the financing of the foreign exchange cost of the joint project—one portion of it to be financed by the bank on its own account, the other portion open to participation of UNCDF. The maturity dates, the rates of interest, the repayment currencies for the two portions may differ. UNCDF would hence make available to governments financial assistance by means of its participation in loans. Assistance would be subject to its own terms and conditions. Thus, the bank could provide a loan financed on its own account and a grant financed by participation of the UNCDF.[1] Such cooperation would serve to soften lending terms by these institutions. It would also be in accordance with its statute which stipulates that UNCDF maintain close liaison with other aid providing agencies.

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[1]United Nations official documents, UNDP Doc. DP/L. 82, pp. 17-19.

To serve in this capacity, it was estimated that the Fund would need a minimum of $10 million and a minimum figure of $100 million before any thought could be given to the commencement of systematic and independent operations.

The Second Pledging Conference for the Fund was an even greater disappointment. Whereas 22 nations had pledged a total of $1.3 million in 1967, in 1968 31 nations pledged the same amount.[1] Again, the developed nations of the West and East (with the exception of Yugoslavia which pledged the equivalent of $300,000 at each pledging conference) continued their boycott. The financial crisis of the Fund was brought to the attention of its creator—the General Assembly. At its twenty-third session (October-December 1968) the developing nations again appealed to the developed nations to end their hostility to the Fund. Their demands were clearly intended to produce positive responses from the rich countries which are expected to finance the assistance and furnish some technical knowledge essential for development. Though stridently voiced in speeches, these demands did not bring forth responses satisfactory to the Assembly majority. It, however, adopted Resolution 2410 on December 17, 1968 by a roll call vote of 68 in favor, 9 opposed (including the U. S., the United Kingdom, France and Japan), and 18 abstentions (including USSR and other socialist states). By this it decided to extend the provisional mandate of the UNDP administration; requested the administrator of the UNDP to identify specific projects

[1]General Assembly, official records, "UNCDF Second Pledging Conference," Doc. A/CONF. 41/2, p. 2. See also U. N. Monthly Chronicle, Vol. 5, December 1968, pp. 99, 100.

in the program of different organizations within the U. N. system which could benefit from investment within the scope of the Fund's resources; and stressed the urgent need for the commencing of operations of the Fund.

For the developing nations, the "revolution of rising expectations" had become one of "rising frustrations" since the lack of capital was vitiating development programs. Realizing that the fate of the Fund depended on the participation or non-participation of the developed world, they urged that the Fund begin its operations immediately in the hope that this might induce the developed countries to join in the undertaking. As the Indian delegate pointed out, "it was obvious that, without the participation of the developed countries, the purpose of the Fund would be difficult to attain, but the developing nations considered the venture too important to be further postponed."[1] In the same vein the Brazilian delegate declared:

> The developing nations had all along wanted the Fund to be an independent institution but they had faced one frustration after another. It might well be that the Fund would never succeed. Money was found in the U. N. for a great many things including duplicative activities and studies and reviews which would be of no benefit to the developing nations. But no money was available for those things that the developing nations found really essential. He was thinking not only of the CDF, but of trade, industrial development and the Development Decade. Money and effort were being channeled into preparations for the Second Development Decade but the wishes of the developing countries for which the Decade was supposedly being prepared were virtually ignored.[2]

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[1] United Nations Official Documents, UNDP 7th Session of Governing Council, January 1969, Doc. DP/SR.150, p. 178.

[2] ibid., p. 184.

The Fund had, thus far, proven to be an "economic failure." Its continued existence was dubious. It could not, in view of the meager resources, make "low-interest loans or grants" as written in its statute. As the administrator pointed out, it did not have enough funds to cover administrative costs of negotiating, supervising and collecting interest and capital repayments on loans. Disbursement of its resources would exhaust its liquidity at once especially since it was geared toward provision of soft loans and grants. He indicated that the smallest average transaction being considered by the World Bank was roughly equivalent to the total resources thus far pledged to the UNCDF. Its total resources pledged were equivalent to the combined expenditure (UNDP and Governments) on a single UNDP pre-investment project ($2,400,000) of which the UNDP contribution alone averaged almost $1,000,000. In comparison to the Fund, the paid-in capital of the IBRD was $2,285 million as of September 1967. This represented only a small fraction of the commitments of member governments to contribute to the authorized or subscribed capital of this institution and of its total available resources, totalling many billions.[1] Considering its inadequate resources, what role was the Fund to play in the field of capital assistance? Was it simply to serve as a reminder of the equal sovereignty but the grossly unequal financial power of the developed and developing worlds? Some nations, i.e., Netherlands and Poland, suggested that CDF could operate within the UNDP serving as a "third window" providing direct investment. Other developed nations, particularly

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[1]UNDP, Doc. DP/L.82, p. 8.

the United States, the United Kingdom, and Canada maintained that whatever the merits of the idea of establishing the Fund, it was no longer justifiable in view of the existence of the IDA and the regional development banks. While the objectives and functions of UNDP were complementary to those of the CDF, they were not synonymous and UNDP could not assume ipso facto responsibilities for the discharge of the full range of international banking and investment functions. In addition, both the American and Canadian delegates protested strongly against making compulsory contribution to the administrative expenses of a body in which they were not interested and whose resources were negligible. They could see no political advantage in keeping the Fund in existence therefore they could not approve the use of their contributions to UNDP either directly or indirectly to support CDF or its operations.[1] The position of the developing countries was that the Fund should exist as a separate institution within the United Nations or not at all.[2]

In response to the request from its seventh session to explore possible ways of utilizing the contributions pledged to UNCDF the administrator of UNDP presented a report[3] to the 8th session of the Governing Council (June 1969). It singled out yet another obstacle to the progress

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[1]UNDP, Doc. DP/SR.150, p. 182. See also International Organization, Vol. 23, pp. 420, 421.

[2]ibid., p. 185.

[3]United Nations Official Documents, UNDP "Report of Administrator, 8th Session of Governing Council," June 1969, Doc. DP/SR.167.

of the Fund. Of the $2.6 million that had been pledged, only $107,000 had been paid in, and of that 90 per cent was in non-convertible currencies. In the light of the acute problem of foreign exchange in the developing nations who were the major contributors to the Fund, it did not appear likely that many of the pledges could, as Resolution 2186 provided, be made available "in a readily or economically usable form." In effect, non-participation of the developed nations deprived the Fund of hard (convertible) currency, i.e., dollars and sterling, the only kinds of currency that carry any weight in international transactions. Contributions from the developing world had been made in currencies not freely convertible into dollars or sterling. Thus the CDF could not plan on financial operations in the strict sense of the word, i.e., banking or semi-banking activities. Because of the non-convertibility of funds, contributors were urged to make their contributions "in kind," i.e., physical capital—equipment, machinery, etc. In essence, the Fund was obliged to confine itself to the principle of "utilization," without excluding the possibility of receiving more flexible contributions which would enable it to carry out its mandate.[1] According to this principle, equipment obtained through contributions "in kind" would be made available to some of the projects financed by UNDP. In an effort to guard closely the already limited resources of the Fund, it was decided that equipment be made available to recipient countries as long-term loans rather than outright grants. Repayments were to be made

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[1]United Nations Official Documents, "Progress Report of UNDP Administrator," June 1969, Doc. DP/L.111, p. 2.

in the currency of the recipient countries and transferred to the CDF. While agreeing that this method could set in motion "a fruitful process of mutual assistance in capital goods among developing countries which already possessed industries and those in the early stages of industrialization," the developing nations reiterated that such aid could not replace the financing on a world scale which the supporters of CDF had envisioned. Its role had been narrowed down to the provision of follow-up investment for UNDP-assisted projects and supplementary assistance in conjunction with UNDP-assisted projects.

The results of subsequent pledging conferences showed that the role of the CDF would indeed remain a subsidiary one unless there was a change in the position of the major industrial powers. At the third pledging conference held in October 1969, $1,317,854 was pledged by the governments of 35 countries; the equivalent of $819,120 was pledged by governments of 31 countries in October 1970; $973,364 was pledged in November 1971 by 30 countries; and the equivalent of $853,258 was pledged by 32 governments in 1972.[1] Again, the developed nations of the West and East (with the lone exception of Yugoslavia) boycotted the conferences. As the Secretary-General pointed out, since the major potential contributors had declined all invitations to attend the conferences, there would be no real breakthrough in the nearly static financial situation in which the Fund had been since its legal establishment.[2] The question before both developed and developing

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[1] Europa Yearbook, 1972, p. 97. Also, see attached document for more detailed account of pledge conferences.

[2] United Nations Official Record, A/CONF.51/SR.1, p. 2.

countries was whether to let an institution created by an act of the supreme organ of the United Nations drift towards a resounding failure or whether they would decide to work together to normalize, stimulate and develop the activities of the Fund and make it operational and effective. As the president of the Fourth Pledging Conference saw it:

> The difficulties in making the Fund really effective were to a large extent linked to the fact that international solidarity and collective responsibility for development were still vague concepts, not yet translated into total and unrestricted commitments. The basic truth had not yet been recognized that affluence and misery could not coexist in a world of peace.[1]

In spite of these appeals, financial support has not been forthcoming from the developed world. Other international financial bodies, i.e., World Bank, though petitioned by the Secretary General, have also refused to contribute to the Fund contending that since its resources are meager, participation on their part is pointless.[2] The only contribution from a non-governmental agency was made by NOVIB[3], a coordinating body of private organizations in the Netherlands concerned with development cooperation. By making an unsolicited contribution of $50,000 in convertible currency, the organization had hoped to show its support for the United Nations efforts to assist economic and social development in the developing nations. The hope of the developing nations that CDF should become an important element in the

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[1] ibid., p. 4.

[2] United Nations Official Documents, UNDP, 10th Session, June 1970, Doc. DP/SR.224, p. 216.

[3] ibid., p. 214.

U. N. development system during the Second Development Decade had, in the light of their frustrations, greatly diminished. Whereas these nations, organized as a strong and cohesive voting bloc, were able to exercise sufficient political influence to establish the Fund, they now lacked the economic power necessary for its operationalization. Aware that their active support was needed in terms of financial contributions, the developed nations maintained a united front in their opposition to the Fund.

The Capital Development Fund has failed to become that viable international financial institution responsible for the provision of capital assistance in the form of "low-interest loans or grants" on a world wide scale as hoped by the developing nations. Whereas its scope had included the financing of general development plans and programs, it has, because of lack of support, been forced to limit itself to the provision of supplementary assistance to UNDP projects and possible participation in loans given by the regional development banks. As of December 1972, total contributions pledged amounted to $5.5 million while actual payments amounted to $2.5 million—90 per cent in non-convertible currencies.[1] Possessing no power to compel its members to give effect or respond positively to its resolution establishing the Fund, the Assembly has continuously granted yearly extensions of the

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[1]United Nations Documents, UNDP Thirteenth Session, January 25, 1972, DP/SR.305, pp. 42, 43.

provisional UNDP mandate through a series of resolutions.[1] Also at the insistence of the developing nations, the seventh session of the Trade and Development Board of UNCTAD adopted Resolution 42 in which it urged the developed nations to give financial support to the Fund.[2] But resolutions do not carry the power of automatic compliance by members. Thus the existence of the Fund continues to be only nominal. Progress reports have simply reflected inactivity of the Fund. Since its establishment in 1966, its total list of activities consist of:

(1) The purchase of two participation loans offered by the Inter-American Development Bank at the cost of $900,000 yielding 7 3/4 interest.

(2) A long-term loan of $400,000 for the purpose of small farm tractors and accessories required by the Green Plan of Lebanon to assist the government in the planned expansion of the country's plan for increased mechanization of agriculture. Financed through the Government of Yugoslavia's contribution to UNCDF "in kind."

(3) A $340,000 UNCDF grant to the Government of Bolivia for the purchase of 60 Diesel engine-driven pumps for irrigation wells under UNDP project BOL 14 - Groundwater Development in the Altiplano. Financed through the Government of Pakistan's contribution to UNCDF "in kind."[3]

Because of its limited resources, supporters of the Fund have attempted to find a new focus. Its resources will henceforth be used to respond

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[1]See General Assembly Resolutions 2410(XXII) of 17 December 1968; 2525(XXIV) of 5 December 1969; 2690(XXV) of 11 December 1970; and 2812 (XXVI) of 7 December 1971.

[2]General Assembly Official Records, 23rd Plenary Session, Doc. A/7214/Supp. No. 14, p. 71.

[3]United Nations Official Documents, UNDP Fourteenth Session, June 1972, Doc. DP/L.222, p. 2. Also Doc. DP/L.216, p. 4.

to the new emphasis on the least developed countries and their industrial needs. Its support will now be given for the provision of a selected number of small scale projects.[1] These would be small scale plants which are crucial to development but not large enough to attract finance from other international institutions. It was hoped that this new emphasis would not change the basic objective of the Fund, which remained capital development. But continued frustrations have led to suggestions that the Fund be abolished. As the Philippine delegate declared:

> There should be no hesitation in admitting that the Fund was a failure and that there was no justification for its continued existence. It was the poor countries that contributed to the Fund and those countries had serious development problems of their own. As far as disposal of the present resources of the Fund, they should be returned to the countries which had contributed to the Fund and which could use them for more pressing needs.[2]

But in all likelihood, the majority bloc in the Assembly will continue to extend the UNDP mandate even if the Capital Development Fund exists only as a symbol of their hopes and aspirations.

Clearly, the inability of the Fund to execute the tasks outlined in its statute is a direct result of the lack of support from the developed world. In their frustration many UNCDF supporters hastened to formulate their own explanations of the motives of the developed nations in opposing the Fund. According to the Cuban delegate, "the aim of the developed nations was to maintain control of the machinery

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[1]United Nations Documents, UNDP Fourteenth Session, Doc. DP/SR. 337, p. 143.

[2]ibid., p. 146.

of international finance through the institutions which they dominated."[1] It was indeed true that in the establishment of IDA and IFC the developed nations of the west had shown that their capital assistance would be channeled only through those institutions in which they retained effective control over policy making. As Asher[2] states:

> In the United States the acceptability of the multilateral alternative is based largely on the vision of a well proportioned pyramid with the World Bank Group, headed by a dynamic American president and governed by the weighted voting at the apex. The rest of the development machinery is assumed to fall neatly into place somewhere below.

This statement is equally applicable to other members of the developed world. All estimates show that a larger flow of resources from developed to developing countries is needed. They have also shown that the developed nations are capable, economically, of undertaking the increased financial costs in view of the continuous rise in their Gross National Product. The debate between the two poles thus centered around the institution through which additional resources would be channeled. Whereas the developing nations had advocated the UNCDF in which decision making power would be more diffused, the developed nations of the west had insisted that a new additional capital-dispensing agency was not needed, and that existing institutions, especially the World Bank Group, in which they maintained preponderant power, be strengthened. Their lack of political will was thus a major factor contributing to the

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[1] United Nations Official Documents, UNDP, 184th meeting of Governing Council, January 1970, Doc. DP/SR.184, p. 139.

[2] Asher, Robert, "Development Assistance in DD II," International Organization, Vol. 25, Spring 1971, p. 107.

failure of UNCDF. That their opposition was based primarily on political rather than economic considerations was confirmed by the French delegate in his remark:

> The hostility of the principal donor countries to the creation of a CDF had been well known and the sponsors of Resolution 2186(XXI) had known that it stood no chance of being accepted by the countries which alone could make it a reality. The scarcity of resources mentioned by some people in that connection was not an entirely satisfactory argument since it was in fact always possible to transfer funds earmarked for bilateral aid to a multilateral program. However, that was a political decision, and a transfer of that kind was not yet accepted by a number of governments, including the French.[1]

The attitude of the socialist countries was less understandable to the developing nations. The polar extremes in the CDF debate had been maintained by the developed countries of the West and the developing countries. Somewhere between the poles were to be found the socialist countries whose attitude was, at best, ambivalent. In the initial stages of the CDF campaign, the Soviet Union had opposed this idea contending that such proposals overestimated the significance of foreign capital for economic development and tended "to encourage intervention in domestic affairs through channels of foreign capital and to perpetuate the economic subordination of the developing nations."[2]

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[1]Debate on UNCDF, Second Committee, General Assembly, 1085 meeting, December 1966, International Organization, Vol. 21, Spring 1967, p. 449.

[2]Rubinstein, Alvin Z., "Soviet and American Policies in International Organizations," in International Organization, Vol. 18, 1964, p. 30. See also official records of General Assembly, Second Committee, Sixth session, pp. 115, 116.

By the fall session of the General Assembly (1953) the Soviet position had altered sufficiently for support to be given to a resolution calling for the establishment of a CDF. Nonetheless, it continued to express serious reservations and counseled caution.[1] By July 1955 the Soviet Union had moved beyond its lukewarm acceptance of CDF and placed itself squarely on the side of the developing nations. It insisted that the Fund not be placed under the World Bank (of which it is not a member) but should be constituted as an independent lending authority, with provision for an active and leading role for the developing nations.[2] In the establishment of IFC and IDA, Moscow found new evidence of the western bloc's attempt to preserve bilateral assistance as an economic weapon for bringing political pressure to bear on certain developing nations.[3]

Though speaking boldly in favor of the CDF, Moscow glaringly refused to state exactly how much it was prepared to contribute to the Fund. One western Diplomat observed that "had the Soviets made a concrete offer of $10 to $15 million dollars, the western bloc would have found itself in a politically impossible position and would have been forced to support the Fund."[4] Instead the Soviet bloc now moved to a neutralist position. In the roll call vote of December 15, 1966 by

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[1]ibid., p. 31. See also ECOSOC official records, Eighteenth Session, pp. 155, 156.

[2]ibid., p. 32.

[3]ibid., p. 33.

[4]ibid., p. 33.

which the General Assembly adopted Resolution 2186(XXI) thus establishing the Fund, the Soviet Union and other socialist states abstained.[1] They have, subsequently, refused to make contributions to the Fund, thus further contributing to its failure.

Only the major powers have the capacity to provide sustained and significant infusions of capital into the developing nations and they are prepared to resist any attempt to force them to channel aid through multilateral institutions in which tangible political dividents may not be forthcoming. Indeed, there are very few instances where the nations of the western bloc and those of the Soviet bloc have contributed to joint ventures in economic development. Most of their aid programs to the developing world have been inspired more by competition than by cooperation. The economic failure of the Fund can thus be attributed to the innate conservatism of the developed nations on economic development and their unwillingness to grant international economic organizations the wherewithal to carry out large scale, non-profit capital development projects. Why these nations have chosen to oppose the Fund is the subject of the next chapter.

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[1]General Assembly Official Records, Twenty-first Session, December 15, 1966, Doc. A/6418.

ANNEX[1]

UNITED NATIONS CAPITAL DEVELOPMENT FUND

Status of Contributions Pledged and Paid as at 1 March 1972
(In US Dollars)

	Country	Contributions Pledged 1968	1969	1970	1971	1972	Total Pledges 1968-1972	Payment Received	Amount Due
1.	Afghanistan	$ -	$ 5,000	$ -	$ -	$ -	$ 5,000	$ -	$ 5,000
2.	Algeria	-	20,000	20,000	20,000	20,000	80,000	60,000	20,000
3.	Argentina	28,571	30,000	30,000	30,000	30,000	148,571	118,571	30,000
4.	Barbados	375	-	-	-	-	375	375	-
5.	Bolivia	-	-	-	-	3,000	3,000	-	3,000
6.	Botswana	2,520	2,520	-	2,520	-	7,560	5,040	2,520
7.	Brazil	-	-	40,000	20,000	20,000	80,000	-	80,000
8.	Burma	10,000	10,000	10,000	5,000	-	35,000	30,000	5,000
9.	Cameroon	-	402	-	725	35,000	36,127	1,127	35,000
10.	Ceylon	20,000	20,000	20,000	20,000	20,000	100,000	60,000	40,000
11.	Chile	27,137	18,100	14,921	10,000	10,000	80,158	60,158	20,000
12.	China	10,000	-	-	-	-	10,000	10,000	-
13.	Colombia	-	-	1,000	-	1,000	2,000	1,000	1,000
14.	Costa Rica	2,334	-	-	-	-	2,334	-	2,334
15.	Cuba	-	-	20,000	20,000	20,000	60,000	40,000	20,000
16.	Cyprus	720	720	720	720	750	3,630	2,880	750
17.	Dominican Republic	-	5,000	5,000	5,000	5,000	20,000	-	20,000
18.	Egypt	40,000	40,000	40,000	91,996	40,000	251,996	80,000	171,996
19.	Ethiopia	-	20,152	-	-	-	20,152	-	20,152
20.	Ghana	29,412	29,400	-	-	29,400	88,212	-	88,212

[1] United Nations Official Document, UNDP, Doc. DP/L.222

ANNEX (continued)

	Country	Contributions Pledged 1968	1969	1970	1971	1972	Total Pledges 1968-1972	Payment Received	Amount Due
21.	Greece	15,000	3,000	3,000	3,000	3,000	27,000	-	27,000
22.	India	500,000	500,000	-	150,000	-	1,150,000	500,000	650,000
23.	Indonesia	50,000	12,500	12,500	-	-	75,000	75,000	-
24.	Iran	10,000	10,000	10,000	10,000	10,000	50,000	40,000	10,000
25.	Iraq	-	10,000	10,000	10,000	10,000	40,000	30,000	10,000
26.	Jamaica	3,000	3,000	3,000	3,000	3,000	15,000	12,000	3,000
27.	Khmer Republic	-	1,000	1,000	1,000	1,000	4,000	3,000	1,000
28.	Kuwait	-	50,000	-	-	-	50,000	50,000	-
29.	Laos	-	-	-	-	1,000	1,000	-	1,000
30.	Lesotho	-	-	1,000	-	-	1,000	1,000	-
31.	Liberia	10,000	10,000	10,000	10,000	10,000	50,000	40,000	10,000
32.	Libyan Arab Republic	-	30,000	30,000	-	-	60,000	60,000	-
33.	Malta	-	-	600	-	-	600	600	-
34.	Mauritius	-	-	1,919	1,919	1,994	5,832	5,832	-
35.	Morocco	-	9,960	9,960	10,000	9,960	39,880	29,920	9,960
36.	Niger	-	-	-	21,583	25,180	46,763	-	46,763
37.	Nigeria	-	5,600	5,600	7,001	7,000	25,201	11,200	14,001
38.	Pakistan	100,000	100,000	200,000	200,000	200,000	800,000	100,000	700,000
39.	People's Democratic Republic of Yemen	-	100	-	-	-	100	-	100
40.	Philippines	-	10,000	10,000	10,000	10,000	40,000	30,000	10,000
41.	Qatar	-	-	-	-	15,000	15,000	-	15,000
42.	Republic of Korea	-	10,000	-	-	-	10,000	10,000	-
43.	Republic of Viet Nam	1,000	-	1,000	1,000	1,000	4,000	3,000	1,000
44.	Sudan	10,000	10,000	-	-	-	20,000	10,000	10,000
45.	Thailand	100,000	-	-	-	-	100,000	100,000	-
46.	Trinidad and Tobago	2,474	2,400	2,400	2,400	2,474	12,148	7,200	4,948

ANNEX (continued)

Country	Contributions Pledged 1968	1969	1970	1971	1972	Total Pledges 1968-1972	Payment Received	Amount Due
47. Tunisia	1,000	1,000	1,500	1,500	1,500	6,500	5,000	1,500
48. Turkey	11,111	-	-	-	-	11,111	11,111	-
49. United Republic of Tanzania	-	8,000	4,000	-	-	12,000	12,000	-
50. Uruguay	-	-	-	5,000	-	5,000	-	5,000
51. Venezuela	-	30,000	-	-	-	30,000	-	30,000
52. Yugoslavia	300,000	300,000	300,000	300,000	300,000	1,500,000	900,000	600,000
53. Zaire	7,000	-	-	-	7,000	14,000	-	14,000
	1,291,654	1,317,854	819,120	973,364	853,258	5,255,250	2,516,014	2,739,236
Number of contributing countries	26	35	31	30	32	53		

Summary	Contributions Pledged	Payment Received	Percentage of Pledges	Balance Due
1968	$1,291,654	$1,235,434	95.6	$ 56,200
1969	1,317,854	65,202	46.7	702,652
1970	819,120	531,120	64.8	288,000
1971	973,364	132,264	13.6	841,100
1972	853,258	1,994	0.2	851,264
	5,255,250	2,516,014		2,739,236

CHAPTER IV

CONFLICTING PERSPECTIVES

The relevance of distorted images and misperceptions to the analysis of any international conflict lies in their capacity to compound the objective conflicts of interest that are ever present between nations. There has always--and inevitably--been some divergence, attributable to the imperfections of the human mind, between the world as it is and the world as men perceive it. Nowhere is this element of blurred subjectivity more prevalent than in the realm of international politics. Here, as elsewhere, the distinction between perception and reality is always arbitrary. For, each actor's perception of himself, of others, and of the political game is shaped by his own experience or national situation which is not the same as that which matters to and moves other actors.[1] Each actor possesses an ordered, more or less consistent picture of the world to which his habits, tastes, capacities and comforts have been adjusted. In so far as these perceptions serve as the springs and fuel of action, they mold political reality. For, each actor attempts to project upon the world its own sense of value, of its position and of its rights. It is this attempt to shape

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[1]Hoffman, Stanley, "Perceptions, Reality and the Franco-American Conflict" in John C. Farrell and Asa P. Smith, (eds.) Image and Reality in World Politics (New York: Columbia University Press, 1967), p. 57.

political reality in accordance with the actor's own perceptions which gives rise to much of the conflict in the international arena.[2]

A further distinction can be made in the perspectives of nation-states as a function of their international position. Helge Hveem[3] contends that there are world perspectives characteristic of center and periphery nations respectively. The proposed differences in attitude towards existing world order and towards change are due to the fact that the center nations (major actors) are the "have's" and that nations as well as individuals strive to preserve what they have. The center perspective on the international system is that present trends of development should merely be extrapolated into the future. It will accept deviations from these trends and from the behavior found compatible with its own interests only insofar as these deviations do not threaten the values or the position of the center nation. It will thus advocate change within the system while the periphery nation will take a more radical approach advocating significant changes or total rejection of the system.

Thus, there is a sharp division in the perspectives of the developed and developing nations of the world. This difference in perspectives has given rise to fundamentally different images of development reality. The different attitudes of these two blocs towards the Capital

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[1]ibid., p. 58.

[2]Hveem, Helge, "Foreign Policy Opinion as a Function of International Position," Cooperation and Conflict, Vol. VII, No. 2, 1972, pp. 74, 75.

Development Fund can be regarded as a surface manifestation of these conflicting perspectives. Perhaps an analysis of this subjective dimension will aid in the identification of those blinders imposed by nationalism, ideology, and rigid thinking and contribute to understanding why the developed nations have consistently opposed the Fund while the developing nations have insisted upon its existence.

The Developed Nations' Perspective

Development, in its broadest sense, is that historical process by which societies evolve from primitive tribal states to complex industrial societies. While all nations have expressed the desire to see the developing nations improve their standard of living, each has its own vision of what that process entails. In discussing the views of the developed nations, attention will be focused primarily on the United States and the Soviet Union. As super-powers, these two nations hold the reins of leadership in their respective blocs. Using their power and influence, they can persuade or coerce their allies to behave in accordance with their own perceptions of development and of the world.

Broadly speaking, the developed nations of the west conceive of economic development as moving forward within an international economy. Their view of development tends to emphasize comparative cost principles, regional specialization, and substantial, if not exclusive, reliance upon prices and markets to organize and guide production.[1]

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[1]The descriptions utilized here are obviously general and brief. They are intended only to represent basic thought patterns rather than to provide a comprehensive analysis of developmental approaches. For a more detailed study see Buchanan, Norman S., "International Finance,"

This tends to mean that, at least initially, further development in the low income areas would build upon already established primary product industries. As these develop further and increase their efficiency, ancillary industries would grow up around them. The traditionally mutually profitable interchange of raw and semi-processed primary products for manufactures from the older countries would continue and expand. Private capital from abroad would assist this expansion. Industry and commerce would thus develop "naturally" as local capital accumulated and the requisite technical, managerial and professional skills diffused amongst the people.[1]

If economic development is essentially so conceived, then the emphasis is upon gradualism, private enterprise, resort to the price system, international specialization, domestic capital accumulation and fairly direct linkages between foreign borrowing, expansion of exports and debt service maintenance. The attitude of many western nations, particularly the United States, is that their interests and those of the developing world can best be served by primary reliance on movement of private capital from developed societies to developing. This has always been an ideological commitment of faith. As a corollary to this faith, the United States' policy has been intent upon encouraging

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Bernard F. Haley (ed.), A Survey of Contemporary Economics, Vol. II (Homewood, Illinois: Richard Erwin, Inc., 1952), p. 338.

[1] Buchanan, Approaches to Economic Development, p. 376.

private direct investment from abroad in developing countries.[1] On the international level, this emphasis on private capital is reflected in the policies of the World Bank Group, particularly the IBRD and the IFC. The Bank has, on numerous occasions, expressed its firm conviction on two points: first, that the major portion of the capital necessary for development must come from within the country itself; second, that foreign financial assistance should come chiefly from private sources.[2] It has thus consistently refused to finance publicly owned industrial projects. Its justification lies in the belief that private ownership is the best way of assuring continuity of efficient management and sound investment policies.[3] In recent years, it has modified its stand considerably, however, and might do so still further.

The role carved out for large-scale capital assistance in this scheme of development appears to be minimal. For, it assumes that under competitive conditions trade and private foreign investment are likely to promote economic development of the poor countries. Trade provides a market for primary commodities and raw materials. The export revenues can be used in part to finance the imports of capital equipment needed to increase productivity in agriculture and industry. With the passage of time, the steady growth of foreign demand for

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[1]Krause, Walter, Economic Development: The Underdeveloped World and the American Interest, (San Francisco: Wadsworth Publishing Company, Inc. 1961) p. 304. See also Myrdal, Challenge of World Poverty, p. 325.

[2]Buchanan, "International Finance," p. 337.

[3]International Conciliation, No. 576, January, 1970, p. 13.

primary products and the growth of domestic industry according to comparative advantage, the developing countries become developed.[1]

The assumed automaticity of international market forces has not, in reality, yielded the expected results. As Myrdal[2] points out, "the advice which the poorer countries receive from the richer is often directed toward increasing their production of primary goods for export." But trade, by itself does not lead to development; it rather tends to have backwash effects and to strengthen the forces maintaining stagnation and repression. What might produce increased capital earnings if pursued by one or several countries, may, and has, produced lower capital earnings when a large number of developing countries seek to gain advantage by increasing primary commodity production, with a resulting glut on the world market and depressed prices. Nor can private capital movements be relied upon to counteract international inequalities. On the whole, capital tends to shun the underdeveloped areas. There are several reasons for this. One is the attraction of investment opportunities in the industrialized countries themselves. Another is the much greater risk that investment in developing countries entails. Threats—actual or potential—of loss of investment as a result of revolution, civil war, expropriation, or nationalization are factors that tend to discourage potential investors. Other reasons include lack of a mass market, the difficulty of repatriating profits,

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[1] Pincus, John A. (ed.), Reshaping the World Economy (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1968), p. 6.

[2] Myrdal, Gunnar, Rich Lands and Poor (New York: Harper & Row, Publishers, 1957), pp. 52, 53.

heavy shipping and insurance costs, lack of infra-structure facilities to support productive enterprises, hostile political and military elites, discriminatory taxes, and the lack of a skilled labor pool. Thus, from the perspective of the developed states, foreign aid should be aimed at correcting many of the conditions that discourage private entrepreneurs from transferring capital to the developing states through investment; in particular, this has meant an emphasis placed on technical assistance, education, health, and infra-structure development. Aid in the form of capital to build productive enterprises has, on the other hand, been rarely offered and in extremely small amounts by the advanced capitalist countries. This has also been true of United Nations programs which have generally reflected the biases of these leading capitalist states.

The roots of the Soviet bloc's conception of development are also embedded in its own ideology—the Marxist-Leninist theory, and its developmental experience. Regarding the flow of private investment as the means by which the west retains control over former colonies, the Soviet prescription for rapid development of the underdeveloped countries includes: a) stimulating the growth of the public sector; b) building large scale heavy industry; and c) encouraging national planning.[1] The Soviet approach also calls for reduced consumption and a ruthless use of state power directed at securing large-scale capital formation. The belief that the long-term development needs of

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[1]Jaster, Robert S., "Foreign Aid and Economic Development: The Shifting Soviet View," Foreign Affairs, Vol. 45, July 1969, p. 455.

the developing countries cannot adequately be met by agencies whose operations are based on the short-term profit motive or by private investment capital was presented by the Soviets as a supportive argument for the establishment of the Capital Development Fund.[1] Soviet analysts have consistently acknowledged the subordination of foreign economic assistance to domestic activity in developing countries. In their view, rapid development would occur with the expansion of the state sector. With an increase in domestic saving and investment in heavy industry, output would be increased. Export of manufactured goods would yield revenue needed for further industrialization.[2] Thus, during the Capital Development Fund debate, the Soviet bloc emphasized that the main purpose of the Fund should be "to assist in the industrialization of the developing nations through the development of the state sector of their economies.[3] Accordingly, the bulk of its economic assistance has been given in support of the public sector and industrial projects and it has stressed that trade, not aid, is the most important and mutually advantageous type of economic ties between the socialist and developing worlds.[4] Soviet aid has generally taken the form of credits to spur such trade arrangements.

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[1]ECOSOC, Official Documents, Thirty-sixth Session, Doc. E/3790, p. 16.

[2]Valkenier, Elizabeth, "New Trends in Soviet Economic Relations with the Third World," World Politics, Vol. 22, April 1970, p. 424.

[3]ECOSOC, Thirty-sixth Session, Doc. E/3790, p. 16.

[4]Jaster, p. 456.

Theoretically then, the developed nations view foreign economic assistance as a supplement to internal saving in the developmental process. Other factors, i.e., state ownership, trade, private investment, etc., have been assigned pivotal roles in this process. Nevertheless, the developed nations have been willing to provide a significant, though insufficient, amount of economic assistance to the developing world. There is no doubt that they recognize the need in the developing nations for investment capital. A general concern for human welfare has also prompted the developed nations to provide assistance. But these have not served as primary motives for assistance. As Pincus[1] points out, "if humanitarian motives were paramount, the claims of starvation in China should be no less than those in India." It would not matter whether assistance was provided through bilateral channels or through a United Nations Capital Development Fund.

Overarching the specific humanitarian and economic motives for assistance, political dimensions are also incorporated into the developed world's image of development. Both East and West have a viewpoint to advance, a position to defend in the international arena. Both realize that development entails profound social transformation and political awareness and that these changes will inevitably affect the world community. What each side envisages is a developing world which conforms to its own perceptions of world order. Each attempts to shape the world according to its own ideological commitment. The west tends to view the developing areas idologically as an arena where the forces

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[1]Pincus, John A., Trade, Aid and Development: The Rich and Poor Nations (New York: McGraw-Hill Book Company, 1967), p. 12.

of freedom and communist absolutism strive for control. On this point Montgomery[1] states:

> United States post-war diplomacy has assumed some responsibility for encouraging conditions favorable to a world order that will neither endanger the security of the United States nor threaten the elements contributing toward freedom in other countries. Economic development, technical modernization, and social and political reforms are bound up with this American commitment.

Conversely, the Soviet bloc looks on the developing world as the center of the struggle of the impoverished masses to overthrow imperialist (western) control. It regards the "liberation" of these states as a crucial step toward the ultimate objective of a communized world.[2]

The great powers really want the same thing: for the world to be organized in their own images, or at least in ways that are not hostile to their images. Thus the concern is not only for a betterment of economic conditions in the developing nations but also for the concomitant development of particular political institutions which concur with their ideological orientations.

The range of instruments available to the developed nations in advancing their conceptions of world order includes military action, military aid, and more importantly for this paper, economic assistance. Indeed, developmental assistance has become a major element of foreign policy of these nations. Much of its value as a flexible and multipurpose instrument of foreign policy of the developed nations springs

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[1] Montgomery, John D., Foreign Aid in International Politics, (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1967) p. 18.

[2] London, Kurt, New Nations in a Divided World, (New York: Praeger Publisher, 1963) p. 205.

from the ways in which it can be used to influence recipient countries' development policies, aspects of their current politics or foreign policies and their long-run political evolution rather than from its resource-transfer function.[1] As Asher[2] points out:

> Developmental assistance tends to provide an acceptable opening wedge for a meaning ful dialogue between donor and receiver on matters that extend far beyond the specifications for the generators, tractors, trucks or fertilizers to be imported.

In autumn 1964, A.I.D. administrator David Bell, addressing an academic conference on political development described "development of democratic institutions and support for broader political participation as important aspects of A.I.D.'s goals."[3] Similarly, Title IX of the United States Foreign Assistance Act of 1966 explicitly states:

> In carrying out the programs authorized . . . emphasis shall be placed on assuring maximum participation in the task of development on the part of the people of the developing countries, through the encouragement of democratic private and local governmental institutions.[4]

Soviet Premier Brezhnev stated the Soviet position in a speech to the Supreme Soviet in April 1968. He indicated that "the scale and concrete forms of Soviet relations with the new states would depend on the general direction of a particular country's policies." The most

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[1]Nelson, Joan, Aid, Influence, and Foreign Policy (New York: Macmillan Company, 1968), p. 2.

[2]Asher, Robert, International Development and the U. S. National Interest (Washington, D.C.: National Planning Association, 1967), p. 15.

[3]Nelson, p. 142.

[4]ibid., p. 144.

intimate ties, he emphasized "would be established with countries which have taken the socialist path."[1] Such have been the considerations which have guided economic assistance to the developing world. The underlying assumption and expectation of the developed world's policy is that the recipient countries will gratefully follow their advice in conducting their domestic and foreign affairs.[2]

Generally, the developed world views development of the underdeveloped nations in terms of its own national interest. For the west the stakes are, at a minimum, denial of additional areas to communist rule and, at a maximum, the development of capabilities of these societies for democracy. For Moscow the stakes are denial of this area to the west in terms of both military strategy and economic resources and in the long run its conversion to communism.[3] Economic assistance has been utilized to a significant extent by the developed world to shape the direction of change in the developing nations and to influence their international political alignments.[4] It is thus viewed as a competitive enterprise rather than a cooperative effort.

The tendency, on the part of the developed world, to fashion and adopt economic assistance programs for developing countries so as to fit their own national interest has an important consequence. This has

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[1]Jaster, p. 463.

[2]Geiger, Theodore, The Conflicted Relationship (New York: McGraw Hill Book Company, 1967), p. 40.

[3]Bloomfield, Lincoln, The U. N. and U. S. Foreign Policy : A New Look at the National Interest (Boston: Little, Brown and Company, 1967), p. 191.

[4]Asher, International Development and The U. S. National Interest, p. 15.

meant a reluctance and unwillingness on their part, to support attempts to implement multilateral and cooperative action for aiding the developing countries within the United Nations framework.[1] Their attitude toward the Capital Development Fund is illustrative of this point. If the national interest is so closely linked with developmental assistance then it seems natural that the developed world would prefer the bilateral approach which gives the donor country economic and political control over the terms of aid and permits it to reap credit if things go well. From their viewpoint, the problem with multilateral aid revolves around the issue of control (making the ultimate decision as to who receives what assistance, for what purposes, and with what kinds of conditions and behavior requirements). So long as the world is torn by political divisions—so long as assistance must serve political as well as economic and humanitarian aims—there will be a limit to which they are willing to channel aid through international organizations.

This, in essence, is the basis of the developed nations' opposition to the Capital Development Fund. In their perspective, the political goal, a friendly developing world or at least a neutral one is worth a good deal but its relation to the economic and political concessions which the Fund entails is not clearly demonstrable.[2] For, what the Fund represents is a separation of developmental assistance from the national goals and objectives which provide the real substance of the developed world's foreign policy. What they are unwilling to do

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[1]Myrdal, Challenge of World Poverty, p. 346.

[2]Pincus, Trade, Aid and Development, p. 349.

is lose control over the pattern of distribution and allocation of capital assistance to either an ideological opponent or recipients. Not only is the Fund an attempt to solicit more economic assistance from the developed nations, it is an attempt to establish a new basis for its distribution. The guiding principles of the Fund leave no doubt that there is a deliberate attempt on the part of its framers to transcend the ideological conflicts so prevalent on the international front and to cut the political strings attached to aid-giving. But ideologies die hard and self-interest or perceived national interest continues to serve as the determinant of foreign policy. The central question in policy making for any nation is whether the credits exceed the debits, whether as a whole the institution will make a net contribution to its national interest. In the view of the developed world, capital assistance disbursed through the Capital Development Fund would not assure the promotion of their foreign policy objective, i.e., politically aligned developing nations. As Gardner explains the American position, "assistance would very well be given to communist countries if channeled through the Fund."[1] Thus for the developed nations of the west the World Bank has a natural appeal since they hold predominant power. For the Soviet bloc, bilateral channels might well remain the primary route for capital assistance in spite of its verbal support for the Fund.

From the developed states' perspectives, both capitalistic and communistic, short-term national interests are best served by bilateral

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[1]Gardner, p. 120.

aid programs since they facilitate the achievement of foreign policy objectives. Yet, long range goals might be incompatible with short-range objectives. A multilateral capital aid program that produced strong, independent and economically and politically viable states over the long run might be the most realistic and pragmatic policy for the United States since it would be compatible with American interests in avoiding revolutions and turns to the political Left that may sweep the developing world if modernization programs are frustrated. A narrow-visioned anti-communist bilateral aid program is unlikely to produce this kind of long-term stability. Policy makers, however, are typically not concerned with long-term results; their effectiveness is judged only in terms of immediate or near-term impact and results.

Developing Nations' Perspective

The developing nations tend to conceive their own economic development in terms different from those of the developed world. They believe, contrary to the prevailing view in the developed countries, that their development should stress industry and manufactures for home consumption, diversification of their economic structure, and lessened dependence upon the already developed countries.[1] What they desire and regard as necessary for economic independence is achievement of substantial structural change, i.e., a fundamental reshaping of the pattern of production. Their objective is to see some fairly

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[1]Buchanan, "International Finance," p. 339.

pronounced shift in emphasis from raw materials production geared to export (e.g., agriculture or mineral exploitation involving exportation of ore in unprocessed form) to greater diversification in production, preferably including industrial development.[1]

The emphasis on industrialization and manufacturing stems from a strong conviction that no matter what measures are taken to improve conditions of trade in primary materials, the long-run prospects are not encouraging for most of the basic commodities in which they specialize. Hence to continue being primary producers for the world market would mean a continuance of low levels of income, economic dependency, political weakness and a generally humble role in world affairs. Manufacturing is thus regarded as essential in the modernization process.[2]

It is this preoccupation with industrialization that enables the Soviet bloc to pose as the champion of the developing nations' cause. The Soviet Union pictures itself as a proponent of industrial development, regarded in the developing world as synonymous with economic development and offers itself as living proof that this method can lead to rapid development. The Soviet bloc apparently has felt that its own cause is best served when it caters to the widespread and largely unmet desire for industrial growth. Accordingly, its assistance has been given in support of industrial projects.[3] The whole thrust

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[1]Krause, p. 475.

[2]Frank, Isaiah, "New Perspectives on Trade and Development," Foreign Affairs, Vol. 25, April 1967, pp. 531, 532.

[3]Mosely, Philip E., "Communist Policy and the Third World," The Review of Politics, Vol. 28, No. 2., April 1966, p. 230.

of Marxism- Leninism as an ideological weapon has, since the Khrushchev era, changed from one of predicting and encouraging the collapse of capitalism in the advanced states to one of "selling" communism (i.e., socialism) as the best, swiftest, surest, fairest, and least painful road to development and the building of a modern society in the Third World. Even so, the developing world regards the Soviet Union as just another great power bent on furthering its own ideology through propaganda. They realize that Soviet verbal support on matters concerning developmental assistance is an asset of dubious value because of the Soviet's unwillingness to match this support with requisite amounts of financial support.

On no point perhaps is the divergence of conviction between the developed and developing worlds more overt than on the score of the appropriate magnitude, sources and conditions of capital supply. The developing nations aspire to rapid economic development, to national self-sufficiency, and more specifically, industrialization--all of which require vast sums of capital. Much of this money, they believe, must come from abroad to avoid pressure on domestic living standards or even to permit some increase in per capita consumption.[1] Population pressures, political unrest, etc., force them into a broad scale assault on the development problem. In their view the traditional sequences of development offer little hope of success. Not only does this imply a different pace for development but also different amounts and kinds of assistance from the developed world. If development

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[1]Buchanan, Approaches to Economic Development, p. 376.

stresses creating industries to serve the home market then outside assistance must be in the form of very long-term loans at nominal rates or outright grants. Debt burden accrued from high interest rates on loans tends to impede progress. Trade surpluses cannot be relied upon to provide ample revenues for the servicing of these loans. The desire for heavy outlays in education, health and housing further reinforce the case for very long-term loans at low interest rates and for grants.

The major theme stressed by the developing nations in their support of a Capital Development Fund is the desire for a substantially lessened dependence on the developed world. The underlying conviction here is that their new found independence is nominal if economic dependence is perpetuated. In their quest for development, the strategy of the developing world is to request an increase in the capital flow from the developed world without offering political concessions in return.[1] Economic assistance always has strings attached, even if they are as impalpable as a sense of dependence on largesse. In the view of the developing nations, this sense of dependence is minimized and political independence is more secure when assistance is channeled through multilateral agencies, particularly those under the aegis of the United Nations in which they can participate in policy making. Bilateral channels, they contend, are incompatible with national dignity . Senator Fulbright[2] concisely summarized a view to which most

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[1]Pincus, Trade, Aid and Development, p. 295.

[2]Fulbright, William J., The Arrogance of Power (New York: Random House, 1966), p. 224.

of the developing nations would subscribe.

> Bilateralism errodes both the rich and the poor, breeding an exaggerated sense of authority on the part of the donor and a destructive loss of self-esteem on the part of the recipient.

As they see it, assistance channeled through an organization such as the United Nations Capital Development Fund would limit the "leverage" that any one developed nation or bloc of nations could exercise on their policies and actions.

Beyond the need to safeguard their political independence and maintain pride and self-respect is the desire to assert themselves politically and carve out a role in world politics. Whereas the developed world is bent on using economic assistance to woo the developing nations into forming political alignments, most of the developing nations have been unwilling to become associated with either west or east.[1] While these nations have been happy to receive aid and eager to obtain more, they have not felt compelled to accept the leadership of either east or west in international affairs.[2] David Kay[3] summarizes the developing nations' view of the ideological conflict in the international arena whose manifestations they have had to encounter in their quest for development.

> Ideological issues have found the new nations, in general, fragmented. Moved by twin beliefs in the essential irrelevancy of the east-west conflict to their own goals and the dangers it poses to achieving these goals, many new nations have consistently abstained on east-west issues.

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[1]Kay, David, The New Nations in the United Nations - 1960-1967 (New York: Columbia University Press, 1970), p. 110.

[2]Geiger, p. 7.

[3]Kay, p. 144.

The significant fact which emerges is that the developing nations, no less than the developed nations, possess their own distinctive set of priorities and that they view all issues in terms of these priorities. Economic development and political self-assertion are primary goals. In their view, the United Nations is the prime instrument for the attainment of these goals. Its commitment to international cooperation in solving problems of an economic, social or political character and in promoting higher standards of living provides a broad umbrella of legitimacy for the pursuit of their goals. From their perspective, the United Nations is both the best available platform for advancing their claim to a greater share of the world's resources and the most suitable operational instrument for carrying out this redistribution.[1] This provides the opportunity to participate equally with the developed nations in the making of decisions which affect their development. It is on the basis of these perceptions that the campaign for a United Nations Capital Development Fund was launched.

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[1] ibid., p. 182.

CHAPTER V

CONCLUSION

It is clear that both developed and developing worlds generally feel that people in the poor countries should be better off. Both profess to be on the same side, marching under the same banner, toward the same goal. Disagreement centers around the appropriate means for the achievement of this goal. Each side's vision of the appropriate means is determined by perceptions of its own national interests and how these can best be served.

Nowhere has this disagreement been more pronounced than in the case of the Capital Development Fund. Indeed, it is this basic conflict of interests which has determined the fate of the Fund. Its creation was prompted by a grave need in the developing nations for capital to implement development projects and by a dissatisfaction with the World Bank both because of the terms of its lending and because of the dominant position of the developed countries. The purpose of the Fund was to assist developing countries by means of grants and loans, particularly long-term loans made free of interest or at low interest rates. Contributions to the Fund, its supporters held, should come from the advanced states. The position of the developed nations has been and continues to be absolute rejection of the Fund. Several arguments have been presented in support of this position, e.g., additional financial costs such a fund would entail; possible duplication of capital exporting indsitutions; and balance of payments problems. More likely reasons for the rejection of the project were the aversion of many advanced countries to provide grants of capital rather than loans through established institutions, because such a Fund was not in harmony with their basic political and economic foreign policies, and their lack of control over funds granted through an agency such as the Capital Development Fund.[1] In spite of this opposition, the developing nations continued their campaign which culminated in the 1966 establishment of the United Nations Capital Development Fund by the General Assembly.

The political victory won by the creation of the Capital Development Fund proved to be a hollow one. For, the success of any development fund requires more than the acquiescence of the developed nations; it requires their active support in terms of large financial commitments. The developed nations have not only adamantly refused to give financial support to the Fund, but most have not regarded it as a valid and legitimate international institution. This has been shown by their continuous boycott of all pledging conferences for the Fund. The meager amount of capital which the Fund does possess has been contributed almost exclusively by the developing nations. It has thus failed to fulfill the purpose for which it was created. In essence, it suffers from a lack of legitimacy in a de jure sense although it does exist in a de facto sense.

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[1]Plano and Riggs, p. 432.

Why Is UNCDF a Failure?

The conclusion is inescapable that the failure of the Fund stems from an inability on the part of the developed and the developing nations to reconcile their differences in perspectives. What the developing nations envisaged in their bold advocacy of a Capital Development Fund goes beyond the need for additional capital. It was to serve a dual function: economic - in that it would provide sizable amounts of scarce capital; political - in that developed and developing nations would share equally the powers of decision making. Indeed, what is implied in the whole notion of a Capital Development Fund is a change in the status quo, i.e., freeing capital assistance from political entanglements. In essence, the conflict over the Fund therefore raises the basic question: Are the developed countries sincere in their professions of support for developmental programs? Would the developmental success of one hundred poor countries be congruent with the national interest objectives of the rich? To the poor countries, the Fund is a reflection of the belief that their political and economic iterests can best be served by concerted action on the part of the world community within the United Nations framework and by lessened direct economic dependence on the competitive foreign policies of the developed world. To the extent that the Fund does eliminate national interest considerations from the aid-giving process, it removes the raison d'etre for additional assistance in the perspective of the rich nations. In their view, the political motives, which in this case are the predominant ones for granting concessions, are too uncertain to merit larger investments; economic aims are clearly subsidiary, not justifying substantial concessions; and humanitarian goals are presumably met by the present level of assistance. The crucial factor here is the refusal of both sides to compromise on their objectives. Each side considers its position to be a perfectly reasonable one. Thus the same unity and determination which marked the developing nations' campaign for the Fund also marked the developed nations' opposition to it. In essence, both sides are motivated by national self-interest considerations which are not harmonious.

My Conclusions

The Capital Development Fund campaign has had several notable effects on relations between the rich and poor nations. Whereas its supporters had hoped that the Fund would serve to narrow the ideological, the political, and the economic gap between these nations, it has done quite the contrary. The fact that it is the developing nations which are contributing almost exclusively to a fund designed to provide them with additional capital is self-defeating. This is an uneconomic redistribution of resources and a diversion of funds which might otherwise be used to implement development plans. In short, the economic gap between the rich and the poor, developed and developing, is growing. The attitude of the developed nations has provided additional evidence for the accusation that their primary concern is the defense of their own ideological and political interests. It has also confirmed, in the minds of the leaders of developing nations, the much heralded accusation that the primary motive for assistance is the furtherance of these ideological and political goals. Soviet-American contribution to the Fund might have dispelled the belief that aid is simply an extension of the East-West struggle. Instead, their opposition has been interpreted as a deliberate attempt to retain the current world power balance and to perpetuate the economic dependence of the poor countries. A psychological gap between rich and poor has thus been widened which makes more difficult the establishment of mutual trust.

A major effect of the Fund's campaign was the development of a spirit of unity among the third world nations. This has been demonstrated notably by the growing solidarity of voting behavior in the General Assembly. This campaign was the first major issue and continued to be a rallying point for the poor countries in their world organization posture toward the rich nations. Despite the very considerable differences which exist among the developing nations and their lack of an economic doctrine to universalize their claim to economic development, they have shown great unity in the struggle to achieve the means for their development. David Kay[1] points out that whereas the newly independent nations have tended to be fragmented on ideological issues, they have been able to form a united front on questions concerning economic development and colonialism. It is their conviction that only through working as a cohesive voting bloc in the General Assembly can they bring pressure to bear upon the industrialized states and produce changes in the international arena. They realize that political muscle is needed to secure economic concessions.

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[1]Kay, p. 90.

A related impact of the campaign and a direct consequence of this new found sense of unity was the creation of a cohesive voting bloc of developing nations which came to be known as the "Caucus of the Seventy-Seven." This group caucused, petitioned and voted as a bloc during the first United Nations Conference on Trade and Development (UNCTAD).[1] Currently, it is approaching one hundred participants, well over the two-thirds needed for adopting "important question measures." The subsequent establishment, by General Assembly Resolution 1995 (XIX), December 30, 1964, of UNCTAD as a permanent U. N. organization over predominant Northern objections is testimony enough of the South's growing solidarity and voting control. This sense of unity has provided a forum (UNCTAD) in which the developing nations can codify their objections to the existing system, exercise constant pressure for concessions, and drive successful bargains with the North. Though its main purpose is to serve as a center for harmonizing trade and development policies, and as a means for the developing states to exert pressures upon the developed states to relent in their restrictionist trade policies, UNCTAD has, through its many resolutions and acts, solicited additional assistance for the developing nations. On the question of the Capital Development Fund, UNCTAD's majority has entered a strong plea for a change in the attitude of the developed nations. In short, UNCTAD is a forum which examines systematically the problems of the developing nations and seeks remedies for them. As such, it voices the aspirations of the developing nations as a

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[1]Pincus, Trade, Aid, and Development, p. 76.

collectivity. Like the UNCDF, UNCTAD's attempt to restyle world trade patterns in a way that would enable the poor countries to earn increasing amounts of capital conflicted with the rich countries' basic political and economic interests. The UNCTAD experience closely resembles that of UNCDF in that, while both were political victories in that the Caucus of the Seventy-Seven established them despite the opposition of the developed states, the latter's lack of sympathy with their basic objectives has vitiated their purpose and effectiveness.

While the Fund's campaign has served to unify the developing nations, it has also tended to weaken the world community approach. The rigid positions taken by both sides, i.e., the absolute refusal of the rich countries to underwrite with capital an institution created by more than two-thirds of the United Nations members, and the refusal of the developing nations to compromise on the basic principles which guide the Fund, have added a considerable degree of polarization between rich and poor, developed and developing, north and south. Differences over the issues of aid and development have tended to increase with the rich becoming extremely resentful of pressures exerted by the poor nations. It is precisely because the developing nations see their forward momentum threatened by bleak aid prospects that they feel a growing sense of frustration. They feel that their problems are ignored and they see no sign of real commitment to help alleviate their tremendous problems of poverty, social change, and economic development.[1]

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[1]Pearson, Lester B. (Chairman), Report of the Commission on International Development (New York: Praeger Publishers, 1969), p. 8.

If the Capital Development Fund was a test of the degree of commitment and willingness on the part of the world community to assume collective responsibility for development, then the advanced nations have failed. As Pincus[2] points out:

> Northern consensus on development is "progressive" in appearance and coincides thereby with Southern aims. But aspirations are cheap. Everyone longs for the almost perfect state. What price in terms of acceptance of change is he willing to pay to reach it? If there is nothing to lose people may be willing to support radical change. As the risks of loss increase relative to anticipated benefits, the subjective willingness to "pay" for changes declines . . . . The developed nations want to see the developing nations bask in material comforts but they are not willing to pay a high price for the prospect. Therefore, they propose, as is fair enough that internal reforms set the pace.

The establishment of the Fund is, in a sense, a translation of national socialist principles to the world community. For the same reason that the rich within a society are hesitant to support ideas of socialism, i.e., greater diffusion of wealth and power, the rich nations, including the Socialist bloc as well as the Capitalist states, reject the idea inherent in the Fund of a greater sharing of world resources through the distribution of capital. Whereas governments of the developed nations have implemented programs to deal with internal poverty, the same zeal has not characterized the fight against world poverty. Neither the United States nor any other developed nation has yet accepted an obligation to the poor nations in any way analogous to that which they accept toward the individual poor and the poorer states and regions within their own nations. Senator Fulbright[2] states:

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[1] Pincus, Trade, Aid and Development, pp. 349, 350.

[2] Fulbright, p. 223.

> The obligation of the rich to help the poor is recognized by every major religion, by every formal system of ethics, and by individuals who claim no moral code beyond a simple sense of human decency. Unless national borders are regarded as the limits of human loyalty and compassion as well as of political authority, the obligation of the rich to the poor clearly encompasses an obligation on the part of the rich nations to poor nations. Indeed it is no more than common sense to recognize that among as within them, the security of the rich is best assured by providing hope and opportunity for the poor.

If development is to be dealt with by concerted action on the part of the world community, all nations must take seriously the question of world distribution of income between countries and not only within them. This means not only moving toward some acceptable pattern of world income distribution, but also recognizing that interdependence in the world economy carries the same implications as interdependence within the national economy, namely that transfer from the rich to the poor are not charitable gifts to be given when the mood of generosity or pity runs high or when there are political favors to gain, but that they are just and obligatory payments, as a logical and coherent part of an interdependent world economy being managed (however visionary this may seem) in the interests of all.[1]

The role of the United Nations is of great significance in the building of a world community and the struggle for development. It has, since its inception, been heavily engaged in relieving human misery in the aftermath of war, in raising levels of nutrition and literacy, and in protecting human and political rights. The process of

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[1]Jolly, R., "Aid Relationship: Reflections on the Pearson Report," Journal of International Affairs, Vol. 24, No. 2, 1970, p. 177.

modernization and development is by definition a process of nation-building and institution-building in which the United Nations can play a crucial role. Indeed, the developing nations believe that the U. N. should play a paramount role in development, particularly as a channel for foreign assistance. This was a prime motive for the UNCDF campaign. The developed nations have been unwilling to delegate so much authority to an organization in which they are being greatly outnumbered by a solid bloc of newly independent states. They are content to let the organization play a static rather than a dynamic role in the sphere of capital assistance. The failure of the UNCDF has done just that: weakened the United Nations and decreased its potential role in development. The ideal of building a world community has suffered a setback by the emphasis that both sides have placed on their national interest considerations in their refusal to reach a consensus in support of the Fund. The developed nations' rejection of the Fund by their failure to provide working capital has only served to divide the U. N. into more warring factions.

The rich and powerful states may ultimately come to distinguish between short-term national interests aimed at gaining momentary advantage over others, and the long-range national interest built on a solid foundation of cooperation, common interest, and world community. A successful developmental program, such as that envisioned by the creation of UNCDF, could serve to move the nations of the world toward realization of the latter. It has not been possible in the contemporary world, however, for long-range community interests to triumph over the narrow parochial interests to produce a situation of harmonious and trustful collaboration between North and South. It would be futile to try to wish into existence a world in which the forces of extreme nationalism yield constantly to the larger interests of mankind. But these nations must focus intensely on the common interests that exist or might be brought into being, and study attentively the possibilities offered by the only political institution joining the two—the U. N.--for making those interests concrete and giving them form and operative meaning. There is room to sharpen the utility of the United Nations as an agency for lessening—and, in this sense, civilizing—the virulence of self-centered nationalism by using it to give greater encouragement to the parallel trend toward consolidation and integration, and by international activities, programs, and institutions that transcend the concerns of individual nations and reflect a common interest, however limited to start with.[1] Major responsibility for the planning and allocation of aid could be shifted from national governments, against which there may be built-in suspicions and prejudices, to the international organizations, particularly those under the aegis of the United Nations. But the United Nations derives its strength from its members; it can only be as active as they allow it to be. Probably nothing is more important in determining the role of the United Nations on the world political stage than the nature of the U. N. image that leading statesmen hold in their minds. Where these images conflict, as between North and South, the organization's growth

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[1]Bloomfield, p. 244.

will be stifled. When international organizations postulate a consensus where none exists, they risk perpetual failure and disillusionment; but where there is a legitimate prospect of a genuine community of interests around a specific—rather than an abstract—need such as development, there is every cause to move, and move vigorously. Whatever its inadequacies, U. N. programs such as UNDP and UNCDF are politically representative of the developing countries' interest in a way which the allocation of votes in the World Bank and the IMF makes virtually impossible. In addition, they promote a more rational distribution of assistance and the establishment of acceptable criteria for allocation and for objective monitoring of performance.[1]

What for the Future?

It would be an illusion to believe that all funds for aid could be wisely put into one great pool, administered on entirely scientific principles by the U. N., the World Bank or some new organization for world development. Man's every activity is increasingly becoming international, but his loyalties remain parochial—confined to national borders. The UNCDF campaign clearly demonstrates this. The developed world has made one point absolutely clear: that it has decided what degree of "cooperation" serves its political interests and its sense of justice, in the light of other goals. This can be seen in the creation of the Special Fund in 1958 and the International Development Association in 1960 as efforts by the developed states to mitigate the

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[1]Pearson, Lester, The Crisis of Development (New York: Praeger Publishers, 1970), p. 74.

UNCDF demands while retaining the key features of voting control. Beyond this point, barring dramatic political changes, the South cannot look to increases in Northern largesse. And, as the great powers tend to reach a stabilized global level of concessions, the Southern task of obtaining capital becomes harder. As East and West move toward detente the profitability of cold war bi-polar badminton will decline. How will the developing states, already deep in debt, secure the needed capital? What new initiatives will be attempted in their desperate effort to secure capital?

It must be admitted that definite answers to such questions are elusive. One can only speculate on the basis of current attitudes. It is not likely that the attitude of the developed nations towards the UNCDF or any institution of similar nature, will change. In the light of this some of the developing nations have suggested that its meager resources be returned to the respective contributors.[1] But in all likelihood this paupers' fund will continue to exist only as a symbol of their aspirations. Any increase in concessions from the North will have to come from changing perceptions of the issues, probably as catalyzed by new trends in political relations; or, in the long run, by the vast prospective growth of Northern income. The developed nations would have to learn to see development as it is, and not as they would like it to be. From such an altered point of view comes the realization that they can only exert an influence over the direction of economic development, if they use the power in consonance with the drift of events and not against it.

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[1]U. N. Official Documents, UNDP 14th Session, January 1973, Doc. DP/SR. 337. See statement of delegate from Philippines, p. 146.

Since their stated goal of a large-scale U. N. donor agency is not in the cards right now, the developing nations will have to take advantage of those institutions already established in the field of capital assistance, i.e., IBRD-IDA. Meanwhile it is in the South's interest to use its new majorities in the United Nations to exert realistic and unremitting pressures on the North. For those developing nations that have maintained close cultural and economic ties with former colonial powers, this could serve as an avenue for additional resources until there is a rededication of Northern energies for a common world prosperity. The UNCDF remains important not for its contributions to ending world poverty, since they are meager indeed, but for contributing to a better understanding of the basic conflicts of perspectives and policies between the rich and the poor nations of the world in the contemporary state system.

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