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To: Members of the Executive Board

From: The Secretary

Subject: UNCTAD - Committee on Invisibles and Financing Related to Trade (CIFT) - Eleventh Session

Attached for the information of Executive Directors is a report by the Fund observers on a meeting of the UNCTAD Committee on Invisibles and Financing Related to Trade (CIFT), held in Geneva during February 18-March 8, 1985.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

UNCTAD--Committee on Invisibles and Financing
Related to Trade (CIFT)
Eleventh Session

Report by the Fund Observers 1/

April 9, 1985

1. Introduction and summary

The Committee on Invisibles and Financing Related to Trade (CIFT) held its eleventh session in Geneva during February 18-March 8, 1985 under the chairmanship of Mr. J. Vetrovosky of Czechoslovakia. 2/ The debate centered on four major items, namely, international monetary issues, foreign private capital flows related to development, ODA flows, and the debt problems of the poorer developing countries. While the discussions on the two former topics remained inconclusive, on the two latter topics a consensus emerged on compromise conclusions which added very little to the relevant resolutions adopted at UNCTAD VI. The Fund observers at the meeting were Messrs. Carlos Sanson, Jack Barnouin, and Richard Eglin of the Geneva Office.

2. International monetary issues

The spokesman for the Group of 77 argued that a major source of instability in the world economy was the continuing resort to restrictive monetary policies as a prime instrument of economic

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1/ Documents referred to in this report are on file in the Secretary's Department.

2/ The Secretariat had prepared the following documents for the consideration of the Committee:

"The international monetary system and financial markets: recent developments and the policy challenge," TD/B/C.3/194;

"Official development assistance and related debt service: scope for further debt relief in favour of least developed and other poorer developing countries," TD/B/C.3/195;

"The role of foreign direct investment in development finance: current issues," TD/B/C.3/196;

"Savings performance and development: selected issues," TD/B/C.3/197;

"Flow of financial resources to, from, and among developing countries, including (a) official development assistance: general monitoring and review of measures contained in Conference resolution 164(VI)," TD/B/C.3/198;

"Review of the work programme of the Committee and implementation of its decision in the field of insurance," TD/B/C.3/199.

management. He urged both surplus and deficit countries to adopt growth-oriented adjustment policies which would aim at reconciling the objectives of a faster expansion of world trade and output with the adjustment of international payments disequilibria in an environment of price stability. He recalled that in the view of his Group this required, inter alia, a reorientation of the developed countries' fiscal and monetary policies designed to promote and accelerate world economic recovery; the establishment of a more symmetrical and equitable adjustment process; an indepth review of Fund conditionality which would take fully into account the structural and developmental nature of the difficulties faced by the developing countries; an easing of the liquidity position of the developing countries through annual allocations of SDR 15 billion; and a full reform of the international monetary and financial system in light of the special needs of the developing countries.

The spokesman for Group B recognized that the economic recession of the early 1980s had spread from the developed to the developing countries which, as a result, had suffered a severe curtailment in their rate of growth. He felt, however, that in its analysis of the current world economic situation the Secretariat had put too much emphasis on the impact of external factors on the developing countries' economies and had failed to dwell sufficiently on the internal measures these countries should have taken at an earlier stage to correct the situation. He also criticized the Secretariat for overlooking the fact that the adoption of restrictive monetary policies in certain industrial countries was a fully justified reaction to the expansionary policies which had resulted in the abnormal emergence of negative real interest rates in the late 1970s.

Turning to the current situation, he stressed that the strong recovery currently underway in the United States had begun to benefit other countries and in particular the non-oil developing countries, the exports of which had substantially increased while their combined current account deficit had been cut in half between 1981 and 1984. Moreover, substantial progress had been made in dealing with the debt problems of developing countries which had been the worst hit by the financial crisis. In this context, he acknowledged the crucial role of the IMF in supporting stabilization programs which had been quite successful in contributing to an improvement in the balance of payments of a number of debtor countries. These first results, however, he went on to say, should not be a cause for complacency and efforts should be pursued in order to ensure a sustained growth in the world economy and a long-term solution to the financial problems of developing countries. In this context, he urged debtor countries to continue pursuing appropriate adjustment policies so as to improve their external position, advocated the maintenance of an adequate transfer of financial resources from developed to developing countries, and called for the maintenance of an open multilateral trading system.

The spokesman for Group D said that the "selfish monetary policies of the reserve currency countries, particularly the United States, and the policies of the international monetary institutions had had harsh negative consequences for the world and had sharpened the international monetary crisis." He criticized the high interest rates currently prevailing in the United States and the recent appreciation of the dollar which, he argued, was precipitating inflation in developing countries as a result of increased import prices and a reduction in commodity export earnings. He also complained that the high volatility of floating exchange rates increased uncertainty in world trade and in international financial transactions and jeopardized international economic cooperation. He concluded that UNCTAD, as the only universal organization dealing with international monetary problems, should intensify its consideration of these problems with the view to improving international monetary relations on the basis of equality and justice. He reiterated that his Group supported in principle the proposal of the Group of 77 regarding the convening of a conference on international monetary and financial reform with universal participation.

The representative of China stated that the absence of a stable international monetary system constituted a serious obstacle to the expansion of international trade and economic relations and he emphasized the need for a more symmetric adjustment process. He supported the call of the Group of 77 for periodic allocations of SDRs linked to development needs, for a relaxation of the Fund's conditionality, and for an expansion of the lending capacity of multilateral development institutions.

The representative of the Fund made a statement (attached) in which he clarified certain observations made in the report of the Secretariat dealing with Fund policies and practices.

3. Official Development Assistance

The spokesman for the Group of 77 expressed his disappointment that, despite repeated promises by the developed countries, ODA flows had not increased in relation to the GNP of donor countries during the last decade. Referring to the study prepared by the Secretariat he noted that the average ODA/GNP ratio for members of the OECD Development Assistance Committee (DAC), after rising to 0.35 percent in 1982 had declined to 0.33 percent in 1983, the same level as in the early 1970s and less than half the level recommended in the International Development Strategy. He further deplored that the developed countries were not honoring their commitments under the Special New Programme of Action (SNPA) for the least developed countries and that the prospects for meeting the 0.15 percent target under this Programme by 1985 were virtually nil. The stagnation in the volume of assistance, he went on to say, had been accompanied by a sharp deterioration in the quality of aid as many donor countries were extending a growing share of their assistance in the form of tied loans and grants and generally were imposing harder financial terms on recipient countries. These adverse trends, he concluded, would have to be promptly reversed if the pressing needs of the developing countries and especially of the poorest among them were to be met.

The spokesman for Group B reiterated his Group's support for Conference resolution 164(VI) which, inter alia, urged developed countries that had not yet reached the 0.7 percent target for ODA to redouble their efforts with the view to achieving that goal not later than in the second half of the decade. All the members of his Group were making serious attempts to implement the policies so defined and during the last recession most of them had on the whole managed to insulate their aid from the budgetary restrictions imposed on other government programs. The slight decline in the ODA/GNP ratio in 1983 was entirely due to GNP rises and not to a reduction of net disbursement of ODA from DAC countries to developing countries and multilateral agencies. Precise estimates of future ODA trends, he went on to say, were not possible for a number of reasons, including the uncertain prospects for a number of major donor countries. It was likely, however, that in the next few years aid growth would be smaller than it was in the period 1977-83 when it averaged 4.8 percent per annum, i.e., more than the combined GNP growth of DAC countries.

Turning to the quality of aid, he stressed that, contrary to the contention of the spokesman of the Group of 77, it had not deteriorated in recent years. The grant element of total ODA commitments by DAC members was at present of the order of 90 percent compared with 85 percent in the early 1970s. Moreover, most DAC countries had recognized the need for a greater share of nonproject aid in total ODA and as a rule had responded constructively to the repeated requests by developing countries for such aid. The scarcity of aid resources, however, he stressed, made it imperative to use those resources more efficiently. In this context, he agreed with the Secretariat on the need to devise an appropriate adjustment process that would not be limited to the short-term objective of reducing the current account deficit but that would also take into account the longer-term restructuring needs of the recipient countries. He also agreed that recipient countries should adopt coherent programs in accordance with clearly-defined national planning objectives and that donor countries should provide assistance in more flexible forms, including a better mix between project and nonproject finance, capital and recurrent costs, and external and local expenditures. In conclusion, he suggested that the Committee request the Secretariat to submit to it at its next session a comprehensive review of the follow-up to Conference resolution 164(VI).

The spokesman for the European Communities reiterated the EC's commitment to the 0.7 percent target which had been already attained by some and was being approached by others. In this context, he noted that in 1983 ODA from the Communities and their member states had amounted to 0.51 percent of their combined GDP and that 70 percent of it had been directed to low-income countries. Particular attention had been given to the plight of the poorest countries in Sub-Saharan Africa for which in 1983 the Communities and their member states had earmarked approximately 53 percent of their total ODA. He also recalled that the EC and 64 ACP countries had recently completed the negotiations on a Third Lomé Convention which involved a 60 percent increase in financial contributions from EC countries.

The representative of Canada said that because of budgetary constraints his Government had recently decided to extend the timeframe for reaching the 0.7 percent target from 1990 to 1996. He assured the members of the Committee that Canadian ODA would continue to grow significantly in real terms to reach intermediate targets of 0.5 percent by 1985 and 0.6 percent by 1990. He also stressed that his Government had made considerable efforts to focus aid on the poorer countries so that Canadian ODA to the least developed countries had, over the past few years, ranged between 0.11 percent and 0.14 percent of GNP.

The spokesman for the Nordic countries expressed his scepticism that private capital flows could be substituted for ODA because the access of poorer developing countries to commercial bank lending and direct investment was limited. He felt that ODA was vital for these countries and he urged the implementation of the commitments made at Belgrade to redouble efforts to meet the 0.7 percent and 0.15 percent targets.

Following this exchange of view, the Group of 77 tabled a draft conclusion which, inter alia, expressed concern about the decline of ODA flows in real terms to developing countries during 1981-83;

noted with disappointment that no progress had been made by most donor countries towards the achievement of the 0.7 percent target for ODA flows to developing countries; further deplored that the prospects of attaining the 0.15 percent target for the least developed countries by 1985 were virtually nil; called on donor countries to live up to their commitments with respect to both targets; urged that the grant element of ODA be raised to at least 95 percent; and stressed that aid should be provided in more flexible and quickly disbursable forms to finance essential imports as well as local and recurrent expenditures. 1/

After considerable discussion among the regional groups, a consensus emerged on a toned-down version of the G-77 proposal. This text--which was approved at the final plenary--still expressed concern about the decline in real terms of ODA flows to developing countries during 1981-83, but it also took note of the major efforts made by a number of donor countries to maintain their ODA performance above the international target and of the remarkable progress made by other donors following their decision to reach the target by 1990. 2/ It expressed disappointment that ODA flows to least developed countries would not have doubled by 1985, but it did not propose any other remedial action than a further examination of the problem at the forthcoming global review of the SNPA. The approved text also noted the importance of efforts which had been carried out already to increase the effectiveness of aid and called for further efforts in this regard, recalled that an adequate level of funding for multilateral development financial institutions was essential, and welcomed the efforts initiated by the international community to cope with the tragic situation in Africa.

4. Debt problems of poorer developing countries

Referring to the report prepared by the Secretariat on this issue, the spokesman for the Group of 77 said that the combined stock of external debt and debt service payments of countries with per capita GNP under $1,000 had expanded to record levels of $194 billion and $20 billion, respectively, in 1983. This growth had been accompanied by a shift towards nonconcessional debt which had more than quadrupled between 1975 and 1983, while ODA debt had increased only two-fold during the same period. As a result, the ratio of debt service to exports for the poorer developing countries had risen substantially. While this burden, he argued, was still considerably lower than that of major borrowers, it was very significant in view of the fact that poorer developing countries generally had a narrow and predominantly agricultural basis and were extremely vulnerable to commodity price

1/ TD/B/C.3/L.154.
2/ TD/B/C.3/L.160, attached.

fluctuations and erratic weather conditions. The solution to this problem, he felt, lay in the mobilization of additional development assistance which should be untied and quickly disbursed. The technique of debt relief, he went on to say, provided the most rapid method of mobilizing such transfers because if the size of relief was adequate it would raise imports, help expand output, restore creditworthiness, and make possible the resumption of normal trade financing. In this connection, he outlined a range of debt relief measures which could be undertaken by donor countries on the portion of the outstanding debt subject to government decision. He mentioned in particular the conversion of all outstanding ODA loans to least developed countries into grants, the waiving of debt service payments, the provision of additional cash grants, and other equivalent actions such as allowing payment of debt service in local currency.

The spokesman for Group B stressed the importance of the discussions on the poorer developing countries' external debt in view of the forthcoming review of the implementation of Section A of Board resolution 165(S-IX) which was to take place at the forthcoming session of the Trade and Development Board. As regards the implementation of that section of the resolution, he said that the members of his Group had almost completed the retroactive adjustment of terms of ODA debt. The amounts involved were by no means negligible as debt rescheduling by the end of 1982 had reached $6 billion for developing countries with per capita income under $1,000 and $3.5 billion for those with per capita income under $500. While there had been criticism that Group B countries had not fully implemented the resolution, the resolution did not indicate any criteria by which the different measures could be undertaken. It was therefore not possible to judge the degree of conformity of the actions taken by the debtor countries on the basis of expectation of debtor countries.

The spokesman for Group D said that the causes of the debt problems of the developing countries lay "in the unequal economic and financial relations between the developed market economy countries and developing countries." This problem, he argued, had deep roots such as "inequitable terms of trade between the developing countries and the developed market economy countries, monetary policies of the West, particularly of the United States, and transfer of profits and other financial resources from the developing countries." Debt rescheduling, he went on to say, "served first of all the interests of the creditors whereas problems of the debtors were not eased but only postponed and made more difficult."

He called on UNCTAD to explore more comprehensive measures to resolve the debt problems of developing countries including the removal of protectionist barriers against imports from developing countries into developed market economy countries, a substantial reduction of interest rates, and a stabilization of exchange rates.

The spokesman for Group B then noted that the spokesman for Group D had dealt exclusively with developing countries' debt vis-à-vis member countries of Group B and had not mentioned the fact that the debt and debt servicing obligations of such countries to CMEA members, according to OECD estimates, amounted to $16.5 billion and $1.8 billion, respectively, in 1982.

The spokesman for Group D replied that even if the figures cited by the spokesman for Group B were accurate, which he doubted, they were negligible in relation to the $800 billion debt of developing countries to the West. The members of his Group, he added, provided developing countries with credits on favorable terms and "could not accept any responsibility for the results of financial exploitation of developing countries by capitalist states."

The representative of China deplored that in order to meet their debt commitments many developing countries were implementing painful adjustment measures which were seriously affecting their economic development and living standards. While the IMF and other institutions had done much to facilitate the rescheduling of developing countries' debt, the debt crisis had not disappeared as many debtor countries were still not able to meet their interest payment obligations. He therefore called on the developed countries to fully implement resolution 165(S-IX) and to introduce measures designed to ease the debt problems of developing countries.

At the close of the debate, the spokesman for the Group of 77 tabled draft conclusions which urged donor countries to urgently implement Section A of Board resolution 165(S-IX), including the conversion of ODA loans to least developed countries into grants. 1/ After some discussions with Group B a consensus emerged on a text which took note of the efforts made by most developed market economy countries to implement Section A and agreed that developed donor countries which had not yet done so should fully and rapidly implement commitments undertaken in pursuance of that resolution. 2/

5. Foreign private capital flows related to development

The spokesman for the Group of 77 said that foreign direct investment (FDI) could play a useful role in the development process through the provision of skills, new technology, and finance. Another important

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1/ TD/B/C.3/L.155.

2/ TD/B/C.3/L.161, attached.

feature of such investment, he added, was that its servicing was generally linked to domestic economic performance even though FDI enterprises also raised part of their financial resources through foreign borrowing. He acknowledged that host country policies were of crucial importance in enhancing FDI, and he called for a successful conclusion of the negotiations on a code of conduct for transnational corporations which would provide an appropriate international framework for addressing host and home countries' mutual concerns.

The spokesman for Group B stated that FDI "could make an important contribution to the development process through the provision of financial resources, managerial and administrative expertise and technology, the expansion of productive capacity, employment of export potential, and the achievement of a better balance between debt and equity financing for capital importing countries." While FDI had declined in the early 1980s as a result of the weakening of the economies of developing countries, it could be expected to increase again in the near future with the recovery that was occurring in these countries. He further noted that equity and debt financing had different impacts on the balance of payments of host countries, as dividends and other remittances depended primarily on the profitability of the investment and was therefore to a large extent linked to the overall performance of the host country's economy. While he recognized that FDI enterprises might meet part of their capital requirement through foreign borrowing, he felt that, should debt servicing difficulties arise, it might be relatively easy to rollover intra-company debt or loans guaranteed by parent companies. On behalf of his Group, he then tabled a draft resolution which acknowledged that under appropriate circumstances FDI could make an important contribution to the development process, and drew attention to "the need for stable, equitable, and transparent conditions in host countries which wish to attract investment, including non-discriminatory treatment and appropriate procedures for resolving disputes." 1/

The spokesman for Group D said that the draft submitted by Group B was one-sided and he tabled a counterproposal on behalf of his constituents. 2/ This text argued that the control of foreign private capital over the economies of developing countries had increased further during recent years "to the detriment of those countries' national sovereignty;" and that the resulting drain on financial resources in the form of export profits and the use of transfer prices by the subsidiaries of transnational corporations had aggravated the debt problems of the developing countries. It called on the prompt adoption of a code of conduct for transnational corporations which should "protect developing countries

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1/ TD/B/C.3/L.157.
2/ TD/B/C.3/L.158.

from the negative consequences of the activities of foreign private capital" and requested the Secretary General of UNCTAD to prepare a study on such negative consequences for the consideration of the Committee at its twelfth session.

As could be expected, it was not possible to breach the gap between the proposals of Group B and Group D which were forwarded by the Committee for consideration at its next session.

Statement by the Representative of the International Monetary Fund at the Second Part of the Eleventh Session of the UNCTAD Committee on Invisibles and Financing Related to Trade

Mr. Chairman:

We would wish to intervene briefly to clarify certain observations made in Chapter II, section B of the Secretariat report TD/B/C.3/194 which deals with Fund policies and practices.

1. The Secretariat paper notes that in the past decade Fund resources (as measured by the sum of quotas, borrowing arrangements, and SDR allocations), and therefore the Fund's ability to directly provide balance of payments support to member countries, have declined relative to the size of the imbalances in the world economy (as measured by the combined current account deficit of non-oil developing countries). Yet, it should be noted that, in spite of this alleged shrinking of available resources, Fund lending has expanded substantially and has, on the whole, kept up with the financing needs of member countries. The ratio of gross financing by the Fund to the current account deficit of non-oil developing countries rose from about 6 percent on the average between 1973-80 to 15 percent between 1981-84, with net financing increasing from less than 3 percent to 12 percent in the same period. Moreover, the Fund's role in providing direct financial assistance to countries facing payments imbalances has permitted it to play a catalytic role for other more permanent sources of finance. In recent years, it has been estimated that for every dollar disbursed by the Fund, seven dollars on the average have been unlocked from other sources.

2. Document TD/B/C.3/194 claims that since the early 1980s there has been a shift away from access to Fund resources subject to low conditionality to those with high conditionality. This reflects the fact that certain facilities with low conditionality, namely, the Oil Facilities (1974, 1975), the Subsidy Account (1975), and the Trust Fund (1976), were allowed to lapse. These facilities were intended to meet special needs and they ceased to be relevant once it became clear that the shocks to the international economy of the 1970s were not reversible but instead called for lasting adjustment. The additional worsening in the terms of trade of non-oil developing countries in 1978-83 resulted in a substantial increase in the use of the CFF (and cereal facility). Many of the countries which drew

on the CFF during this period needed in addition to correct their policies and therefore availed themselves of balance of payments financing through use of conditional resources under stand-by or extended arrangements. Incidentally, the linking to an upper credit tranche arrangement with high conditionality is not a prerequisite for CFF drawings, as witnessed by the recent upper tranche use of the CFF by Jordan, a country without an arrangement with the Fund. The link, instead, is to the Fund being satisfied with the member's efforts to cooperate with it in finding appropriate solutions to its balance of payments difficulties.

3. The Secretariat's paper suggests that potential and actual access to Fund resources has become more restrictive. It ought to be noted in this regard that despite the reduction in the access limits to Fund resources by member countries in relation to their quotas at end-1983, criteria for the use of the Fund's resources under the policy on enlarged access, as stipulated in 1981, have remained unchanged. The reduction of over 40 percent in purchases from the Fund in 1984, from the record level of the preceding year, was primarily a reflection of the sharp reduction in external imbalances in the developing world, and particularly among the major debtor countries. It is also this improved external situation--together with concern for preventing some member countries from becoming continuous users of Fund resources and thus jeopardizing the revolving character of these resources--that has contributed to the decline in the size of Fund credit relative to quota for countries which have concluded arrangements since early 1984 (as compared with the previous two years). Criteria on access limits nonetheless have continued to be applied flexibly and on a case-by-case basis; shortly after the most recent review of access limits (September-November 1984), two stand-by arrangements were concluded involving access close to, or at, the upper limit, namely, Argentina and the Philippines (102 percent and 93 percent of quotas, respectively).

4. Contrary to what is stated in this paper, Fund conditionality has not been tightened. Rather, the availability of resources, including foreign borrowing, has been reduced. Performance criteria, which are meant to help monitor the adjustment path of the economy concerned, have not been applied rigidly. As has been the practice all along, unless proper justification can be provided, failure to observe one or more of the performance criteria will result in interruption of purchases; however, this is generally followed by early consultations to examine ways to restore the country's purchasing rights under the arrangement. Secondly, there have been numerous

instances when waivers or modifications of performance criteria have been granted when departures either did not impair the adjustment or measures were adopted to keep it on track. Thirdly, in a number of programs, performance criteria are defined in such a way as to be adjustable for certain exogenous developments and/or statistical modification of base data. In cases when programs go offtrack, a negotiation for a new arrangement generally takes place immediately so that a new adjustment program can be designed to bring the economy back on track with least disruption.

5. The paper indicates that adjustment programs supported by the Fund place excessive emphasis on relatively short-term demand management and give insufficient attention to supply-enhancing measures, thus tending to result in deflation and adverse shifts in income distribution. We may note in this connection that adjustment programs supported by the Fund continue to stress the importance of appropriate demand management, undoubtedly the proximate cause of imbalances in most cases. However, appropriate incentives for the development of the productive base of the economy have been equally emphasized in all arrangements, whatever their duration. Recommendations to adopt adequate pricing policies and to eliminate distortions arising from restrictions on trade and payments and from the maintenance of overvalued currencies are geared to promoting efficiency, with a view to increasing savings and investment and to achieving higher exports and output growth on a lasting and self-sustaining basis. Available evidence would tend to support the view that a number of countries have been successful in recent years in adjusting relative prices, and thus setting the stage for the recovery of output.

6. Mr. Chairman, the world economy is now emerging from the most difficult experience in the post-war period. A number of developing countries initially failed to adjust to the new circumstances and became heavily indebted in the process. As the situation worsened, adjustment had to be carried out with or without the Fund. Fund sponsored programs have represented a serious attempt to improve economic management in these countries in an orderly fashion with the least possible welfare losses. We think that we have had a measure of success in these endeavors. Import compression at first was unavoidable but now most of these countries are increasingly adjusting through export expansion and growth. The Fund's role has been crucial in providing direct financial assistance through policy support and in acting as a catelyst for other sources of finance. While significant progress has been made in the resolution of the debt problem, it would be a mistake to believe that it is behind us. Its permanent solution will take

several years. This is why we will not be complacent in the future: we shall renew our efforts to continue to help these countries to regain their creditworthiness, strengthen confidence, and restore adequate rates of economic expansion.

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TRADE AND DEVELOPMENT BOARD
Committee on Invisibles and Financing
related to Trade
Eleventh session, second part
Geneva, 25 February 1985
Agenda item 4 (a)

GROSS AND NET FLOWS OF FINANCIAL RESOURCES FOR THE DEVELOPMENT OF DEVELOPING COUNTRIES:

(a) OFFICIAL DEVELOPMENT ASSISTANCE: GENERAL MONITORING AND REVIEW OF MEASURES CONTAINED IN CONFERENCE RESOLUTION 164 (VI)

Draft agreed conclusions submitted by the Chairman

Pursuant to Conference resolution 164 (VI) the Committee on Invisibles and Financing related to Trade undertook a general monitoring and review of the measures recommended in Conference resolution 164 (VI). The Committee's task was facilitated by documentation provided by the UNCTAD secretariat including analysis carried out by the secretariat of replies provided by governments concerning their aid programmes and policies. The Committee also made use of the reports prepared by the Chairman of the Development Assistance Committee of the OECD. The Committee came to the following agreed conclusions.

(1) The Committee took note of the serious economic difficulties facing many developing countries heavily dependent on ODA as a means of financing their economic development and underscored the importance of an expanded and sustained flow of ODA in supporting orderly adjustment and growth.

(2) The Committee expressed serious concern that, in spite of commitments, net ODA flows to developing countries during 1981-1983 have stagnated and declined in real terms. During this period net ODA from developed market-economy countries increased slightly in real terms though the ODA/GNP ratio continued to remain approximately half of the targets mentioned in Conference resolution 164 (VI) and the IDS and remained unchanged from the level of the early 1970s. The prospects for a substantial increase in ODA flows currently seem to be uncertain.

(3) The Committee took note with satisfaction of the major efforts by a number of developed donor countries which have maintained their ODA performance above the international target; it was also encouraged by the remarkable progress made by a number of other developed donor countries following their decision to reach the target by 1990. The Committee urged the remaining developed donor countries to decisively redouble their efforts with a view to fulfilling their commitments under Conference resolution 164 (VI) and the IDS.

(4) The Committee expressed disappointment that ODA flows to the least developed countries would not, as foreseen in the SNPA, have doubled by 1985. The Committee recalled the provisions of the SNPA urging the developed donor countries to take effective measures for doubling their total ODA to the least developed countries by the end of 1985 in relation to transfer during 1976-1980 by doubling their respective ODA to these countries or by devoting 0.15 per cent of their GNP as ODA to these countries. Although a number of developed market-economy countries have increased their flows to the least developed countries during the period 1977/78 to 1982/83, and some have even surpassed the target, the ODA/GNP ratio of the developed market-economy countries has been stationary at 0.08 per cent since the Paris Conference. The Committee noted various proposals regarding ODA volume for the least developed countries that could be considered at the mid-term review of the SNPA.

The Committee noted that further attention would be paid to the performance of donors towards the implementation of the SNPA at the forthcoming Mid-term Global Review of Progress.

(5) The Committee concluded that improving aid effectiveness cannot be regarded as a substitute for efforts related to the volume of aid in real terms. The Committee noted the importance of efforts which have been carried out already to increase the effectiveness of aid and called for further efforts and, in this regard, both donor and recipient countries should be guided by the provisions of paragraph 3 of Conference resolution 164 (VI). In this regard, further efforts should be made for co-ordination of aid to be more effective, in particular through improved multilateral arrangements in the form of aid consortia, consultative groups, UNDP Round Tables, etc. In this respect the Committee welcomed efforts made by a number of recipient countries to adopt more efficient administrative structures and procedures in order to facilitate the absorption of external financing.

(6) The Committee stressed that special measures should be adopted in favour of the least developed countries in the form of substantially increased share of programme assistance and recurrent cost support, increased support for local development banks and advance payments in appropriate cases, among others, as outlined in the SNPA.

(7) The Committee underlined the importance of multilateral development finance institutions and the Asian Development Bank, African Development Bank and Inter-American Development Bank in facilitating adjustment, recovery and growth.

The Committee noted with general disappointment that the seventh replenishment of IDA, a major source of concessional assistance to developing countries, has fallen far short of the levels recommended by the World Bank management. The Committee recalled that an adequate level of funding of these institutions is essential so as to provide a sound basis for continuing significant growth in their lending in active pursuance of their increasingly important development role.

(8) The Committee welcomed the efforts initiated by the international community to cope with the tragic situation in Africa. In particular it noted with appreciation:

(a) the wide support given to the Joint Programme of Action for Sub-Saharan Africa proposed by the World Bank management;

(b) the creation of the World Bank's Special Facility designed to cope with Africa's urgent needs of additional concessional finance in support of both medium-term structural adjustment and long-term institutional development.

(9) The Committee stressed that its review and monitoring role could be further strengthened by the provision by all developed donor countries of full and transparent information on all aspects of the recommendations of Conference resolution 164 (VI) on a regular basis.

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TRADE AND DEVELOPMENT BOARD
Committee on Invisibles and Financing related to Trade
Eleventh session, second part
Geneva, 25 February 1985
Agenda item 6

DEBT PROBLEMS OF DEVELOPING COUNTRIES

Debt and development problems of developing countries: ODA and related debt

Draft agreed conclusions submitted by the Chairman

1. In the light of Board decision 289 (XXVIII), which requested the Trade and Development Board at its thirtieth session to undertake a comprehensive review of the implementation of Section A of Board resolution 165 (S-IX), the Committee undertook a detailed examination of issues raised in the secretariat document TD/B/C.3/195.

2. The Committee noted that many developing countries have adopted adjustment policies often at great economic and social costs, and were able to reduce their current account deficits. It noted that in many cases the capacity of developing countries to adjust and to deal with their debt service payments had been under continuing pressure. In many countries the anticipated rise in debt service payments could exert further pressures on their debt service capacity and development prospects.

3. The Committee noted that a satisfactory resolution of the ODA-related debt problems facing a number of developing countries requires measures such as encouraging, _inter alia_, long-term financial flows and improved access to foreign markets. This process would also be facilitated by lower interest rates in developed countries, as well as the continuation and intensification, where appropriate, of policies by developing countries concerned which are supportive of long-term growth and development, bearing in mind the relevant paragraphs of Conference resolution 161 (VI).

The Committee also invited all parties concerned to closely co-operate to that end.

4. The Committee noted the efforts by most developed market-economy countries to implement Part A of resolution 165 (S-IX) and agreed that developed donor countries which have not yet done so should implement fully and rapidly commitments undertaken in pursuance thereof.

To this end the Committee noted that in implementing Part A of resolution 165 (S-IX), a wide variety of measures could be taken by developed donor countries such as cancellation of debts, conversion of loans into grants, repayment of debt service in local currency etc.

5. The Committee invites the Trade and Development Board at its thirtieth session to examine these conclusions, taking into account the views expressed by States members at the present session of the Committee.

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TRADE AND DEVELOPMENT BOARD
Committee on Invisibles and Financing
related to Trade
Eleventh session, second part
Geneva, 25 February 1985
Agenda item 6

DEBT PROBLEMS OF DEVELOPING COUNTRIES

Debt and development problems of developing countries:

ODA and related debt

Draft agreed conclusions submitted by the Chairman

1. In the light of Board decision 289 (XXVIII), which requested the Trade and Development Board at its thirtieth session to undertake a comprehensive review of the implementation of Section A of Board resolution 165 (S-IX), the Committee undertook a detailed examination of issues raised in the secretariat document TD/B/C.3/195.

2. The Committee noted that many developing countries have adopted adjustment policies often at great economic and social costs, and were able to reduce their current account deficits. It noted that in many cases the capacity of developing countries to adjust and to deal with their debt service payments had been under continuing pressure. In many countries the anticipated rise in debt service payments could exert further pressures on their debt service capacity and development prospects.

3. The Committee noted that a satisfactory resolution of the ODA-related debt problems facing a number of developing countries requires measures such as encouraging, inter alia, long-term financial flows and improved access to foreign markets. This process would also be facilitated by lower interest rates in developed countries, as well as the continuation and intensification, where appropriate, of policies by developing countries concerned which are supportive of long-term growth and development, bearing in mind the relevant paragraphs of Conference resolution 161 (VI).

The Committee also invited all parties concerned to closely co-operate to that end.

4. The Committee noted the efforts by most developed market-economy countries to implement Part A of resolution 165 (S-IX) and agreed that developed donor countries which have not yet done so should implement fully and rapidly commitments undertaken in pursuance thereof.

To this end the Committee noted that in implementing Part A of resolution 165 (S-IX), a wide variety of measures could be taken by developed donor countries such as cancellation of debts, conversion of loans into grants, repayment of debt service in local currency etc.

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