CANADIAN MISSION TO THE UNITED NATIONS

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EXTERNAL FINANCING OF ECONOMIC DEVELOPMENT OF THE DEVELOPING COUNTRIES

Text of a statement made in the Second Committee by the Canadian Representative, Mr. Bruce Rankin, on October 19, 1967, on External Financing of Economic Development of the Developing Countries (Item 42).

The subject we in this Committee have now before us is a very complex one, the complexity of which is reflected in the scope and diversity of the various reports prepared for this item. I wish to say something about several of those reports but before doing so I wish to make one general comment. We in Canada greatly regret that the flow of financial resources from developed to developing countries has not kept up with the growth in the national incomes of the donor countries, even though most developing countries could use immediately a much greater volume of external assistance. The report of the group of experts in document E/4327 on the problems of methodology in the measurement of the flow of resources underlines the desirability of presenting that flow in as meaningful a way as possible. But by any measurement, the volume of aid has recently been disquieting. And the volume of external assistance is not the only criterion for judgements about its adequacy. The "quality" of the aid is also of great importance. By this I mean the terms on which the aid is given, the proportion that is tied and its geographical distribution, all of which influence its effectiveness. Yet here again the trends of the past few years have been disturbing and the problem of debt-servicing has become an increasingly pressing one.

We in Canada have viewed with concern the fact that the overall terms of aid have become harder. Accordingly, in our own programme of assistance, we have been conscious not only of the need for more aid but for aid on better terms. Last year Canada exceeded the target set forth in ECOSOC resolution 1183 on terms of aid by providing almost 90% of our assistance in the form of grants and development loans at interest rates of 3% or less. The bulk of our development loans are now interest free with a maturity period of up to 50 years.

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Canada maintains the policy of insisting that the major portion of its bilateral aid be given in the form of Canadian goods and services; of tying our aid funds, in other words, to procurement in Canada. We do this of necessity, rather than by conviction, because our sympathies lie with the terms of the recommendation adopted by the Development Assistance Committee of the OECD in July 1965, which said, in part, that tying of aid

> "can bring about cumbersome limitations on the freedom of the recipient to choose freely the most suitable sources of supply on the international market. With regard to bilateral assistance, member countries should jointly and individually endeavour, unless inhibited by serious balance of payments problems, to reduce progressively the scope of aid tying with a view ultimately to removing procurement restrictions to the maximum amount possible."

A significant and growing proportion of Canadian aid is channelled through the multilateral agencies and is, of course, already untied. In respect of our bilateral aid, we are willing, indeed anxious, to move from our position in concert with our fellow donors, particularly those whose economic influence in the world is so much greater than that of Canada. To be realistic, we cannot visualize early international agreement on this question, considering the disparate nature of aid programmes and donor economies. We are, however, hopeful that it will be possible to arrive at a formula which would permit gradual movement towards the objective of more untied aid.

In the meantime, in Canada, we have done our best to mitigate the possible adverse effects of tying aid. Procedures have been adopted to ensure that there will be competitive bidding and we make available a sufficiently broad range of goods and services to enable the recipient country to avoid those with a relative price disadvantage. Another step we have taken is to reduce the emphasis formerly placed on financing only the foreign exchange component of a project.

I would now like to turn briefly to the report on the Promotion of Private Foreign Investment in Developing Countries, document E/4293. Private foreign investment is generally recognized as an indispensible part of the flow of financial resources to developing countries. Canadians are very conscious of the contribution which foreign investment has made to our economic growth. It is a fact of life, however, that the pattern of international private capital flows are largely determined by underlying economic forces. The high rate of economic growth in the leading industrial countries in recent years has provided an exceptional opportunity for profitable private investment and has undoubtedly diverted some private capital which might otherwise have been invested in the developing countries. Accordingly, developing countries anxious to benefit from an inflow of private investment must provide an appropriate climate for such investment. Measures which in our view could prove helpful and which are referred to in the Secretary-General's report include:

- a promotion programme that publicizes the business opportunities in the developing country, based on expert analysis of sources of materials, labour, power, markets, etc.;

- assurances with respect to the transfer of capital and earnings to investors;

- a willingness on the part of foreign enterprises to utilize domestic human and physical resources to the greatest possible extent;

- a flexible policy towards joint ventures;

- tax incentive schemes to attract new business;

- more appropriate and equitable international tax arrangements; and finally,

- assurances and guarantees with respect to non-business risks.

With regard to the Secretary-General's report in document E/4274 on export credits, the Canadian delegation to the forty-third session of ECOSOC was pleased to join in supporting resolution 1270. That resolution notes the work being done in this field by both UNCTAD and the World Bank and requests the Secretary-General to consult with member states on the most practical national and regional schemes for the financing of capital goods exports by and among developing countries. We shall look forward to reading the results of his enquiries when they are presented to the forty-fifth session of ECOSOC.

We welcome the Secretary-General's report on the outflow of capital from the developing countries in document E/4374/Rev.1. This is one of the most difficult questions in the whole field of international payments. No one questions that the outflow of capital of the developing countries is significant or that it deserves serious consideration. But statisticians are hampered in estimating the amount of those capital flows by the lack of reliable and current information. The usefulness of the information given in the Secretary-General's report will depend on the degree of co-operation from member countries in responding to his questionaire on this subject. We hope that more member states will soon respond and that it will be possible to issue further addenda to document E/4374.

The technical reports which I have touched upon do not obscure but rather throw new light on the principal problem which faces us when we consider the question of the external financing of economic development of the developing countries. That basic question is simply the amount of financial assistance the developing countries are receiving. Here the question of the replenishment of the resources of the International Development Association is a crucial one. At the meeting last month of the World Bank and International Monetary Fund

in Rio de Janeiro, the Canadian Minister of Finance stated that we believe that the IDA should be replenished at a figure substantially higher than the present one. He went on to describe in some detail the Canadian position and, with your permission, I should like to quote from his statement.

"In the richer countries, which are able to afford to share their good fortune, budgetary problems and balance of payments difficulties do exist, will probably continue to exist and must be overcome. It is always tempting to go slow on aid as one of the easiest and quickest ways to help restore equilibrium. And yet... it should not be beyond our capacity to manage our affairs in such a way as to effect these transfers of aid without undue strain on our economies ... the war against starvation, sickness, ignorance and poverty in less fortunate parts of the world should be continuous and escalating. This will not be possible if the level of aid is to be treated as a residual item in national planning. In the present circumstances, it may be necessary to build into IDA replenishment some balance of payments safeguards. We do not advocate such safeguards, but we are prepared to accept them if this means that IDA be replenished at a higher level. The safeguards should not affect a country's obligation to give more aid but only enable it to postpone the effective date. Their establishment should be related to balance of payments difficulties only, not to other objectives. They should be temporary and they should be of such a character as not to undermine or weaken in any way the basic principles which have governed the operations of the World Bank group and which have proven to be so successful in the past....

Canada attaches the highest importance to the early replenishment of IDA at a substantially higher level. This support is consistent with my Government's decision, made some time ago, to undertake steady increases in the Canadian aid programme. This decision has only recently been reaffirmed despite the efforts which we shall be making by budgetary policies and otherwise to limit the upward pressures on costs and prices... We rank aid among our highest priorities and we are determined to follow policies that will release the required resources."

Given this policy, the Canadian Government has been gratified by the statement of the President of the World Bank in his closing speech at the Rio Meeting three weeks ago that a ministerial meeting on IDA replenishment was desirable and should, if necessary, be preceded by a meeting of officials. Canada will work diligently for the success of those proposed meetings which we hope will lead to the early replenishment of the IDA at a substantially higher level. And for this same reason Canada strongly supported the resolutions of both ECOSOC and the Trade and Development Board concerning the early replenishment of IDA funds. We trust it will not now be very long before the hopes expressed in those two resolutions are realized and the IDA be restored to a position where it can add further to its remarkable achievements since its inception.