



The Capital Development  
Needs of the  
Less Developed Countries

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**The Capital Development Needs  
of the  
Less Developed Countries**

*(Report of the Secretary-General)*

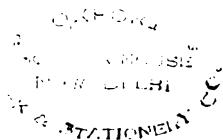


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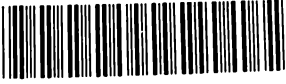


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## FOREWORD

This report is prepared in response to the recommendation of the Committee on a United Nations Capital Development Fund in its report of 8 June 1961.\* The purpose and the scope of the present report are explained in paragraphs 71 and 72 of the Committee's report in the following terms:

“ 71. The Committee, accordingly, wishes to recommend that a report should be prepared on the capital development needs of the less developed countries. It felt that such a report would provide additional and valuable information in assessing present assistance and future needs to be met by international financial institutions, in promoting the economic development of less developed countries.

“ 72. The report would include an evaluation of the external financial needs and requirements of capital resources needed to promote accelerated development; it would evaluate the impact of existing arrangements and institutions in fulfilling those needs and would define the fields where additional international effort is still required.”

The report has been prepared in the Division of General Economic Research and Policies of the United Nations Secretariat.

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\* *Official Records of the Economic and Social Council, Thirty-second Session, Annexes, agenda items 2-5, document E/3514.*

## EXPLANATORY NOTES

The following symbols have been used in the tables throughout the report:

Three dots (...) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A full stop (.) is used to indicate decimals.

A comma (,) is used to distinguish thousands and millions.

Use of a hyphen (-) between dates representing years—e.g., 1956-1959—signifies the full period involved, including the beginning and the end year.

A stroke (/) indicates a financial year—e.g., 1956/57.

References to “dollars” (\$) indicate United States dollars.

The term “billion” signifies a thousand million.

Details and percentages in tables do not necessarily add to totals, because of rounding.

The designations employed and the presentation of material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country or territory or of its authorities, or concerning the delimitation of its frontiers.

## LIST OF ABBREVIATIONS

CICT	Commission on International Commodity Trade
ECA	Economic Commission for Africa
EEC	European Economic Community
EPTA	Expanded Programme of Technical Assistance
FAO	Food and Agriculture Organization of the United Nations
FAO/CCP	FAO Committee on Commodity Problems
IAEA	International Atomic Energy Agency
IBRD	International Bank for Reconstruction and Development
ICAO	International Civil Aviation Organization
IDA	International Development Association
IFC	International Finance Corporation
ILO	International Labour Organisation
IMF	International Monetary Fund
ITU	International Telecommunication Union
OAS	Organization of American States
TAB	Technical Assistance Board
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNTA	United Nations Technical Assistance
UNRWA	United Nations Relief and Works Agency
WHO	World Health Organization
WMO	World Meteorological Organization

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pointing up the margin of error that may be inherent in the relevant estimates.<sup>1</sup>

5. The economic projections made in respect of under-developed countries are rendered particularly hazardous by a lack of adequate information on many key social and economic factors. To obtain, for example, a reasonably reliable estimate of the foreign capital requirements of these countries, it would be essential, in the first instance, to have considerably more information than is at present available for many of them on their social and economic structure and on their present economic conditions. This would involve obtaining additional data on such important economic variables as: population and labour force; natural resources; stock of fixed capital, volume and pattern of production; distribution of income; pattern of expenditure, and structure and quality of administrative machinery.

6. Even more formidable difficulties arise from the absence of reliable information on the future trends in some of these and other variables mentioned below. This information is also indispensable to estimates of capital requirements extending over a period of years. Some of these variables are primarily under the control of the under-developed countries themselves. Among these, particular mention should be made of the evolution of economic and social policies, especially those bearing on development programmes, land tenure and fiscal and budgetary systems. Equally important are changes in the quality and efficiency of the administrative machinery which the governments would wield in the execution of their policies. These factors play a dominant role in determining the rate of domestic savings and the extent of productive use that is made of the internal and external resources available to the countries. They have, therefore, a direct bearing on the external resources needed to attain a target rate of growth in production.

7. Other factors which have to be taken into account in computing the financial needs of under-developed countries depend on the future developments in the world economy over which the primary producing countries have a relatively minor control. It is, in particular, essential to have a clearer view of the rate and pattern of growth in the industrial areas of the world in order to estimate the volume and the pattern of the foreign demand for the exports of under-developed countries. In the absence of this information it becomes impossible to make a reliable projection of the foreign aid requirements of the under-developed countries. For example, the amount of external aid required by these countries will, other things being equal, vary inversely with the level of foreign demand for their exports, as reflected in the volume and prices of export products.<sup>2</sup>

<sup>1</sup> For a more detailed discussion of the problems and limitations in making economic projections, see *Official Records of the Economic and Social Council, Thirtieth Session, Annexes*, agenda items 2-4, document E/3379, paragraphs 40-51.

<sup>2</sup> There is also no reliable information on future developments in the import prices of under-developed countries. However, owing to the relative stability of these prices, as compared with export prices, this gap in knowledge presents a less serious difficulty in making quantitative evaluations.



8. In the light of the above comments it is clear that the estimates regarding capital aid requirements summarized below cannot lay claim to precision. Nevertheless, they serve the important purpose of indicating the general order of magnitude of the problem of capital aid. In this connexion it may be noted that the United Nations Secretariat, pursuant to resolutions of the General Assembly, the ECOSOC and the CICT, is at present engaged in a study of the problems of projections of trends in world production and trade as well as of future demand for selected primary products. The data obtained from these studies should be found useful in connexion with making quantitative estimates of the requirements of under-developed countries for foreign economic aid in the future.

### Quantitative estimates of global aid requirements

9. Two techniques have been commonly used in making global estimates of capital requirements of the under-developed countries. The first, which for convenience may be called "capital-labour" approach, has been used in estimating the resources required for purposes of raising the level of employment outside agriculture. It is assumed that for each person added to non-agricultural employment a given amount of additional investment will be required. Given this figure of investment and a target growth in employment it is possible to estimate the amount of total capital requirement. This approach was followed in the report of a group of experts, appointed by the Secretary-General of the United Nations, summarized in section A below.

10. The other technique which is often employed in evaluating the capital requirements of the under-developed countries is generally known as "capital-output" approach. Here, it is assumed that increases in production bear a relatively stable ratio to net investment so that, given a target rate of increase in production and income, it is possible to derive the figure of net investment required. This technique is used in the three private studies on the external capital requirements of under-developed countries summarized in sections B, C and D below.

#### A. MEASURES FOR THE ECONOMIC DEVELOPMENT OF UNDER-DEVELOPED COUNTRIES<sup>3</sup>

11. The estimates of capital aid requirements made by a group of experts in this report have a limited practical interest today, since they are based on national income and population data in 1949 and cover the years 1950-1960. The brief summary of the estimates provided here may, nevertheless, be found useful as an illustration of the first technique mentioned above for estimating the capital requirements of under-developed countries.

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<sup>3</sup> United Nations, *Measures for the Economic Development of Under-developed Countries* (Sales No.: 51.II.B.2).

12. The capital requirements of under-developed countries are estimated in this report under two broad headings. The first covers an estimate of capital needed to provide new employment outside agriculture, which for convenience is called "industrialization". Under the second heading an estimate is made of the amount of capital needed to develop the agricultural sector.

13. In estimating the volume of capital needed for industrialization the experts assumed an annual transfer of one per cent of total working population out of agriculture into non-agricultural employment. The amount of capital required for each person absorbed into non-agricultural employment was taken at \$2,500.<sup>4</sup> On the basis of these two assumptions the amount of capital needed for industrialization was estimated at \$15,270 million per annum (see table 1).

14. For agriculture, it was assumed that the under-developed countries should annually spend an amount equal to one per cent of their national income on agricultural extension services and research and a further 3 per cent on agricultural capital on and off the farms. This resulted in an estimate of \$3,864 million as the annual capital required for agricultural development.

15. The total capital requirements for industrialization and agricultural development thus amounted to about \$19 billion. It should be noted that this figure covers only estimate of capital directly required for industry and for agriculture; it excludes funds required for investment in "social overheads". If the latter requirements were included in the estimate, the total capital needs would, according to the experts, "greatly exceed \$19 billion".

16. The total net investment of about \$19 billion in industry and agriculture, estimated in the above manner, was expected to result in an annual growth of 2 per cent in per capita national income. Since the rate of increase in population was taken at 1.25 per cent per annum, this would yield, during the initial years, an annual rise of slightly over \$3 billion in the national income of under-developed countries, estimated at \$96.6 billion for 1949. The above estimates of the capital requirements and of the income growth made by the experts thus imply a capital-output ratio of about 6 to 1, which is about twice as high as the ratio used in the other three studies summarized below.

17. Of the total investment funds of \$19 billion required, an amount of slightly over \$5 billion was, according to the experts, covered by net domestic savings, leaving about \$14 billion as the estimate of the annual requirement of the under-developed countries for foreign capital (see table 1). It is pointed out, however, that the under-developed countries should be able to raise the level of their domestic savings by adopting certain measures suggested in the report. Moreover, part of the growth in national income resulting from the increase in investment could be

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<sup>4</sup> In addition to expenditure on plant and equipment, this figure covered also outlay on research and training.

**Table 1. Capital required by under-developed areas annually in industry and agriculture to raise their national income per capita by 2 per cent annually**

Area	Population mid-1949 (millions)	Expected rate of annual population increase 1950-1960 (per cent)	National income 1949	Net domestic savings 1949	Needed for		Total needed	Deficit (col. 8 minus col. 5)
					Industri- alization	Agri- culture		
(Millions of dollars)								
1	2	3	4	5	6	7	8	9
Latin America .....	158	2.25	24,000	1,990	1,580	960	2,540	550
Africa, excluding Egypt .....	178	1.25	13,200	720	1,780	528	2,308	1,588
Middle East, including Egypt .....	94	1.50	9,000	540	940	360	1,300	760
South Central Asia <sup>a</sup> .....	436	1.50	24,000	1,200	4,360	960	5,320	4,120
Far East, excluding Japan <sup>b</sup> .....	661	0.75	26,400	790	6,610	1,056	7,666	6,876
TOTAL	1,527	1.25	96,600	5,240	15,270	3,864	19,134	13,894

Source: United Nations, *Measures for the Economic Development of Under-developed Countries* (Sales No.: 51.II.B.2).

<sup>a</sup> Including Ceylon, India, Pakistan, the Maldiv Islands and the adjacent areas of Bhutan and Nepal.

<sup>b</sup> Including British Borneo, Burma, China (mainland), China (Taiwan), Federation of Malaya, Hong Kong, Indonesia, countries of former French Indo-China, Macao, Mongolia, Netherlands New Guinea (there is a dispute about the territory, as regards its political status, between the Government of Indonesia and the Government of the Netherlands), Philippines, Thailand, Timor and Singapore.

siphoned off into increasing domestic savings. They conclude, nevertheless, that even if allowance were made for these increases in domestic savings, "it remains the case that a 2 per cent increase in per capita national incomes cannot be brought about without an annual capital import well in excess of \$10 billion".

18. It should be noted that the above estimate of capital requirements, unlike the other three global estimates summarized below, covers also mainland China and Mongolia included under the heading "Far East" in table 1. To bring the coverage of the experts' estimate closer to the other three estimates it would be necessary to exclude the capital needs of these two countries from the figures of total requirements shown in table 1. For this purpose it is assumed that the share of these two countries in total capital requirements of the Far East is roughly equal to their share in the total population of that region.<sup>5</sup> On the basis of this rough adjustment, the estimate of total capital needed by under-developed countries, excluding mainland China and Mongolia, would be reduced from \$19 billion to about \$13 billion; the initial estimate of foreign capital requirements, shown in column 9 of table 1, would also decline from about \$14 billion to about \$8.5 billion.

#### B. A PROPOSAL <sup>6</sup>

19. This study, which was published in book form in 1956, attempts, among other things,<sup>7</sup> to estimate the additional foreign capital required by the under-developed countries in their process of "transition to self-sustained economic growth". Like the report of the experts mentioned earlier, the study is to some extent out of date, as it is based on the national income and investment data of the under-developed countries in 1953. A brief summary of its findings may nevertheless be found useful.

20. The estimates of the foreign capital requirements contained in this book are largely based on an evaluation of the amount of the additional capital that can productively be absorbed by under-developed countries. The capacity to absorb foreign capital, according to the authors, depends on such factors as the existence of skilled labour, competent administrators, markets and of basic transportation, communication and power facilities. The countries which are in the very stages of development have, according to them, a relatively low "absorptive capacity". However, owing to their limited domestic resources virtually all the additional capital needed to launch the growth process must be supplied from outside.

<sup>5</sup> This is a reasonable assumption, since, as shown in table 1, the amount of capital needed for industrialization, which is estimated on the basis of working population, constitutes over 85 per cent of the total capital requirements of the Far East.

<sup>6</sup> Max F. Millikan and W. W. Rostow, *A Proposal, Key to an Effective Foreign Policy* (New York, 1956).

<sup>7</sup> The book is partly devoted to a discussion of a number of national and international political questions which are not relevant to this report. Only the technical sections dealing exclusively with the capital requirements of under-developed countries are summarized here.

For these countries the additional foreign capital requirements are estimated at 30 to 50 per cent of their 1953 levels of gross capital formation.

21. Once the growth process is under way, the capacity of the country to absorb capital rises rapidly. At the same time, however, the increase in income enables the country to finance a larger share of the required investment from domestic resources. The authors, therefore, maintain that "If additional external capital is supplied at an annual rate of something like 30 to 50 per cent of the rates of investment prevailing in a country at the beginning of the development process, the country can mobilize sufficient saving out of the increases in its income to keep pace with its own growing capacity to use capital."

22. For countries which have advanced beyond the early stage of development, the foreign capital requirements, measured as a percentage of their 1953 capital formation, are assumed to be relatively lower. For Latin America, for example, the upper limit of the proposed annual capital inflow is taken at 14 per cent of the 1953 gross capital formation.

23. The annual rates of increase in income are calculated by applying a capital-output ratio of 3:1 to the sum of net capital investment in 1953 plus the proposed additional capital inflow estimated in the above manner. On the basis of this figure and the expected rates of population growth the authors estimate the annual per capita rates of growth in income for the major under-developed regions in the world.

24. The basic data and assumptions underlying this study and the major conclusions derived from it are summarized in table 2 below. It can be seen that the upper limit of the proposed additional capital inflow is estimated at \$3.5 billion per annum. This represents for Latin America 14 per cent and for the other four regions, shown in the table, 35 per cent of gross capital formation in 1953. The annual increase in total income is expected to range from 3 to about 4.5 per cent for the different regions of under-developed areas; the corresponding rise in per capita income is estimated to range from 1.4 to slightly over 2 per cent per annum. The lower limit of the foreign capital inflow is assumed to be \$200 million less than the figures shown in the table for each of the five regions specified in the table and would amount in total to \$2.5 billion.

25. The authors of the book maintain that only a relatively small proportion of the \$3.5 billion additional inflow of capital has to be in the form of grants. Most of it can be in the form of bilateral and multilateral public loans. Grants are considered appropriate primarily to countries at the earliest stage of development whose credit-worthiness is limited. The following table summarizes their proposal on the type of the additional economic assistance required and on the sources from which it should come.

26. Moreover, they believe that the actual outflow of capital to under-developed countries under the programme, especially in its early years of operation, will be considerably less than the figure of \$3.5 billion committed for the purpose. They consider that after the announcement of the programme a period of two to three years will be required for the

Table 2. Possible capital formation and income growth in the under-developed countries, by region

Item	South Central Asia	Rest of Asia	Middle East	Latin America	Africa	Total
National income — \$ billion — 1953	27.9	19.7	12.3	40.4	10.1	110.4
Gross capital formation—\$ billion — 1953 .....	2.8	1.7	1.5	7.1	1.2	14.3
Net capital formation — \$ billion — 1953 .....	1.7	1.2	0.9	4.3	0.7	8.2
Upper limit of proposal annual additional capital inflow .....	1.0	0.6	0.5	1.0	0.4	3.5
Percentage annual income increase .	3.3	3.0	3.8	4.37	3.6	3.7 <sup>a</sup>
Population (millions) — 1953 .....	459	231	90	173	173	1,126
Percentage annual population increase .....	1.3	1.6	1.8	2.25	1.5	1.6 <sup>a</sup>
Percentage annual per capita income increase .....	2.0	1.4	2.0	2.12	2.1	2.1 <sup>a</sup>

Source: Millikan and Rostow, *A Proposal, Key to an Effective Foreign Policy* (New York, 1956).

Note: For additional information on assumptions and methodology, see appendix in the source. The regional grouping used in the above table is as follows:

South Central Asia: Ceylon, India and Pakistan.

Rest of Asia: the balance of Asia, excluding China (mainland), Mongolia, the Middle East and Japan, i.e., Afghanistan, Burma, Cambodia, China (Taiwan), Federation of Malaya, Hong Kong, Indonesia, Laos, Nepal, Philippines, Republic of Korea, Singapore, Thailand, Viet-Nam, and the Pacific Islands.

Middle East: the Arabian Peninsula, Cyprus, Iran, Iraq, Israel, Jordan, Lebanon, Syria, Turkey, United Arab Republic and the Persian Gulf States.

Latin America: all countries of South and Central America.

Africa: all countries of the African continent except United Arab Republic and South Africa.

<sup>a</sup> Computed by the Division of General Economic Research and Policies of the United Nations Secretariat on the basis of the regional figures.

	Millions of dollars
Grants:	
United States contribution .....	360
Contribution of other countries .....	240
Direct private investment .....	500
Additional international bank loans .....	400
Public loans:	
United States contribution .....	1,700
Contribution of other countries .....	300
TOTAL	3,500

Source: Millikan and Rostow, *A Proposal, Key to an Effective Foreign Policy* (New York, 1956).

elaboration of well-prepared national programmes and projects and for solving such logistic problems as selecting proper equipment and purchasing organizations. It is emphasized, however, that if the proposed programme is to have a significant impact on development, the commitment must be greater than expected disbursements. The reason given is, to quote from their study, "If the commitment is pared below the above suggested figure, the actual disbursements will also fall at least in pro-

portion. We regard it as of the highest importance that sums of the full order of magnitude suggested above be offered to insure that capital is forthcoming whenever clear criteria for productive investment are met."

27. A further point reiterated by the authors is the need for continuity of the programme over a number of years. They maintain that "Even where the general environmental conditions are already favourable, project planning and the adjustment of development programs may require two or three years. Where more fundamental deficiencies in education, statistical information, labor and entrepreneurial skills, transport and communications, and public administration exist, the lead time may be a decade or more." An assurance, therefore, that the programme would last on a substantial scale for at least five years is absolutely essential, according to them, if it is to have the desired effects.

28. It is suggested that part — from 15 to 25 per cent — of the total foreign capital required by the under-developed countries could take the form of agricultural commodities. In this connexion the authors recommend the establishment of an "international food and fibre bank" from the present agricultural surpluses. The resources of the bank are to be utilized by those developing countries which are not able to raise their domestic production of food and fibres sufficiently to meet the increase in demand brought about by rising employment and incomes in the process of development.

29. As mentioned later in this report, the question of utilizing the world food surpluses as an effective transitional means to assist economic development is examined in greater detail in a recent publication of FAO.<sup>8</sup> It is suggested in that publication that surplus food represents an important part — from one-sixth to one-fourth — of the total external economic aid of \$5 to \$6 billion required for economic development in the under-developed countries.

### C. PROPOSAL FOR A CRUCIAL DECADE — THE NINETEEN SIXTIES<sup>9</sup>

30. The estimate of the additional foreign capital requirements of the under-developed countries made in this proposal is of the same order of magnitude as the one mentioned in the last study summarized above. Unlike the latter study, however, the estimate contained in the "Proposal for a Crucial Decade" is not based on the "absorptive capacity" of the under-developed countries; it is, as shown below, derived from a target rate of growth in per capita income and from projections on foreign trade over a ten-year period.

31. The goal of this proposal, as stated by the author is, "to double in the nineteen sixties as compared with the nineteen fifties the annual

<sup>8</sup> Food and Agriculture Organization of the United Nations, *Development Through Food, A Strategy for Surplus Utilization* (Rome, 1961).

<sup>9</sup> This proposal was advanced in the following brochure: Paul G. Hoffman, *One Hundred Countries, One and One Quarter Billion People*, Albert D. and Mary Lasker Foundation (Washington, D.C., 1960).

per capita rate of economic growth in 100 countries and territories containing a billion and a quarter of the world's people". The annual per capita rate of growth in production and income in the under-developed countries for the nineteen fifties is estimated at one per cent; it is proposed to raise this rate to 2 per cent for the nineteen sixties.

32. To attain this goal it would be necessary to raise the annual rate of growth in total production and income by one per cent. As the total income of the under-developed countries is estimated at about \$100 billion, the proposed acceleration in the rate of growth would amount to an extra rise in total income of \$1 billion per year in the initial years. Using a capital-output ratio of 3 to 1, it is suggested that an additional net investment of \$3 billion per annum will be required to attain the desired goal.

33. For the whole decade of the nineteen sixties, the external capital requirements of under-developed countries are taken at ten times the annual figure in the initial years, or at about \$30 billion. It is acknowledged that the exact figure is a matter of debate and depends on such factors as the speed with which the annual inflow of foreign capital can be increased by \$3 billion, and the rate of increase in the domestic savings of the recipient countries.

34. The author considers that of the total requirement of \$30 billion, about \$10 billion is likely to be covered in the nineteen sixties through increases over the present levels in private investment and in bilateral and multilateral aid programmes existing in 1959. This would leave about \$20 billion which has to be found from sources which are at present not available. It is considered that the bulk of this sum should be made available for investment in infrastructure and should be advanced in the form of "soft" loans — "loans of exceptionally long terms, with exceptionally low interest rates"; and, in most instances, providing "for deferred interest and principal payments".

35. This study, unlike the preceding two, provides a general reconciliation between the figure of requirements for investment resources, estimated in the above manner, and the figure of foreign exchange requirements, based on projections of foreign trade of under-developed countries. It is estimated that the total merchandise import requirements of these countries would amount to \$440 billion in the decade 1961-1970, if their rate of economic growth were doubled. Moreover, an additional \$8 billion might be required for other costs, such as debt service, transportation and other services. The foreign exchange earnings of the under-developed countries are estimated at \$378 billion over the same period. This would leave a foreign exchange deficit of \$70 billion for the decade, or \$7 billion per year, to be met by the inflow of foreign capital.<sup>10</sup>

36. The inflow of what the author considers as "development capital" into under-developed countries in the fiscal year 1957/58<sup>11</sup> is

<sup>10</sup> No details are provided on the method used for the projection of the value of exports and imports of the under-developed countries during 1961-1970.

<sup>11</sup> Year ending 30 June 1958.



estimated at \$4 billion<sup>12</sup> — \$2.6 billion international public and \$1.4 billion private. On the basis of the above projections on foreign trade, which show an annual deficit of \$7 billion, an additional amount of \$3 billion per year has, therefore, to be provided in foreign exchange to meet the total deficit on external account of the under-developed countries.

37. The author considers the goal of a 2 per cent rise in annual per capita income not only a modest and practical one but the very minimum that should be sought. It is recognized that under this programme not all countries will show the same rate of progress in their development. There is the possibility that, to quote the author, “say, ten or fifteen or more key countries will make the most of the opportunities offered, plan and build wisely, make the necessary domestic effort, attract a disproportionate amount of outside investment and achieve real breakthroughs toward self-propelling, self-generating economies with enormous increases in living standards. Others, with less favourable circumstances or not willing to make the necessary effort, may attain less than the average income increase. And still others may regress.”

38. The author lays great stress on the significance of preinvestment operations — surveys of resources, technical training and industrial research. Such operations, which enable the under-developed countries to make effective use of capital resources, are considered of key importance in any development programme. He also emphasizes the need for an assurance of continuity in the flow of development funds. “To be effective,” he writes, “development programmes must be thought of in terms of decades, not years.”

#### D. INTERNATIONAL AID FOR UNDER-DEVELOPED COUNTRIES<sup>13</sup>

39. In this article an attempt is made to evaluate separately the foreign capital requirements of the under-developed countries in the process of their transition to “self-sustaining economic growth”, during the three consecutive five-year periods of 1962-1966, 1967-1971 and 1972-1976. The criterion proposed for the provision of economic aid is that “aid should be allocated where it will have the maximum catalytic effect of mobilizing additional national effort or preventing a fall in national effort”. The amount of aid given to each under-developed country should, according to the author, depend on its “absorptive capacity”,<sup>14</sup> while the type of

<sup>12</sup> In estimating this figure a number of adjustments are made to the actual flows of foreign capital, especially in respect of United States “defence support” and “special assistance”, only a fraction of which is included in “development capital”. Moreover, a deduction is made from the flow of private capital to allow for the abnormal oil investments made in the fiscal year 1957/58.

<sup>13</sup> P. N. Rosenstein-Rodan, “International Aid for Under-developed Countries”, *Review of Economics and Statistics*, vol. XLIII, No. 2 (Cambridge, Massachusetts), May 1961.

<sup>14</sup> The “absorptive capacity” is defined along the lines mentioned in study B, summarized above. However, whereas that study calculated capital needs in the aggregate by large regional groups, the article under consideration here examines the capital needs of the under-developed countries one by one.

economic assistance provided should be determined by its "capacity to repay". Where the "capacity to repay" is below the "absorptive capacity", a proportion of the aid should be given in grants and "soft" loans.

40. The estimates start by assuming a given rate of growth for the individual under-developed countries during each five-year period. The rates of growth reflect the "absorptive capacity" of the countries, which is estimated by reference to the changes in each country's rates of investment and savings in the recent past and to its administrative and developmental organization. The capital requirements of the different countries during each five-year period are estimated on the basis of its total value of production in the initial year and its assumed rate of growth during the period estimated in the above manner. For this purpose a capital output ratio of 2.8 to 1 is assumed.

41. The share of the total capital requirements which can be met from domestic resources in each period is estimated on the basis of the average rate of savings in the initial year and an assumed rate of marginal savings out of increases in income. In the majority of cases, the marginal savings rate is assumed to be roughly twice as high as the average rate. The excess of the total resource requirement over net domestic savings for each country represents its requirement for foreign capital.

42. The assumption that the marginal savings rate will be considerably higher than the average savings rate leads to the conclusion that with the progress of time, as per capita production and income grow, a steadily higher proportion of the required investment resources will be financed from domestic savings. The article provides detailed statistical tables showing for each country estimates of the rate of growth of production, of average and marginal savings rates and of foreign capital requirements during each of the three five-year periods.

43. Briefly, the total requirements of the under-developed countries for foreign "development capital" are estimated at about \$5.7 billion per year during the first two five-year periods — 1962 to 1971 — and at about \$4.7 billion per annum in the last five-year period — 1972 to 1976. The current inflow of "development capital" from western countries in 1959 is estimated at about \$3.65 billion.<sup>15</sup> It is therefore estimated that the additional annual foreign capital requirements of the under-developed countries would amount to about \$2.0 billion in the years 1962 to 1971, and to about \$1.0 billion on 1972 to 1976. The margin of error in these computations is estimated at about 25 per cent. The above figures do not include expenditure incurred for technical assistance purposes, estimated at \$250 to \$300 million per annum. It is suggested that this figure should be raised to about \$400 million per year. Moreover, it is recommended

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<sup>15</sup> In this report, as in the report discussed under C above, "development capital" is distinguished from total capital flows; thus in estimating the above figures of capital requirements and of current inflow of capital, about one-fourth only of the United States "defence support", two-thirds of surplus products sold by the United States under Public Law 480 and one-half of private investment in oil and in other mineral industries are taken as being "development capital".

that appropriations for aid should, if possible, be 33 to 50 per cent higher than what is likely to be disbursed, in order to encourage vigorous development efforts on the part of the recipient countries.

44. The article provides detailed suggestions on the sources of the additional capital inflow. It is recommended that in the first five-year period, economic aid<sup>16</sup> should increase by about \$1.64 billion per year and private investment by about \$0.45 billion per year. A further annual rise of \$0.5 billion in private investment is envisaged during the second and third five-year periods. The flow of economic aid is expected to decline considerably in the third five-year period owing partly to this rise in private investment and partly to the fall in total foreign capital requirements mentioned above. It is pointed out that part of economic aid may be provided in the form of the grant or sale of surplus agricultural products for repayment in local currency.

45. As in the case of the preceding two studies, the article draws attention to the need for continuity of the aid programme. It states, "knowledge that capital will be available over a decade or more up to the limits of the capacity to absorb will act in many cases as an incentive to greater effort. Assurance of continuity of aid is, therefore, as important as the amount of aid."

46. Table 3 provides a summary of the four global estimates of the foreign capital requirements of under-developed countries reviewed above. It also indicates the basic assumptions underlying these estimates. The wide divergence between the estimate summarized under A and the other three estimates are accounted for partly by the fact that the former study was made many years before the latter and was based on very different national accounts and capital inflow data. In addition, the methodology followed in it was different from that used in the other three studies. As noted earlier, the implied capital-output ratio in study A was about 6 to 1, as compared with a ratio of about 3 to 1 assumed in the other studies. For any target rate of growth in income, estimates of capital requirement would, other things being equal, rise proportionately with the assumed capital-output ratio.

47. Estimates of the additional capital requirements emerging from studies B and C are of the same order of magnitude — i.e., about \$3 billion per annum. Study D would also show an estimate of comparable magnitude for the first two five-year periods — 1962 to 1971 — if account were taken of certain items excluded from the figures shown in the table.<sup>17</sup> The impor-

<sup>16</sup> Economic aid is defined as "those parts of capital inflow which normal market incentives do not provide". It includes grants, "soft" loans and sale of surplus products for local currency; it excludes all medium-term credits.

<sup>17</sup> This would entail adding to the figure of \$2 billion, estimated as the annual additional capital requirement during 1962-1971, additional expenditure on technical assistance (about \$150 million) and certain allocations, not fully explained by the author, for the establishment of an "emergency fund" (\$200 million) and for "social development" (\$300 million). It should be noted that both studies C and D refer to development capital rather than to total capital flow and that the definition of development capital is more restrictive in the latter than in the former.

Table 3. Summary of global estimates of foreign capital requirements of under-developed countries

Source <sup>a</sup>	Reference data				Projection targets			
	Reference year	National income (billions of dollars)	Per capita annual growth in national income (per cent)	Inflow of capital (billions of dollars)	Period of projection	Per capita annual growth in national income (per cent)	Annual foreign capital required (billions of dollars)	Annual additional foreign capital required (col. 6 minus col. 4)
	1	2	3	4		5	6	7
A. (a) Measures for economic development of under-developed countries .....	1949	97	0.75	1.0 <sup>b</sup>	1950-1960	2.0	14.0 <sup>c</sup>	13.0
(b) Measures for economic development of under-developed countries, excluding China (mainland) and Mongolia <sup>d</sup> ..	1949	77		1.0	1950-1960	2.0	8.5	7.5
B. A proposal .....	1953	110		3.0		2.0	6.5	3.5 <sup>e</sup>
C. Proposal for a crucial decade — the nineteen sixties .....	1959	100	1.00	4.0	1960-1969	2.0	7.0	3.0
D. International aid for under-developed countries <sup>f</sup> .....	1961	192 <sup>g</sup>	...	3.7	1962-1966	1.8	5.7	2.0
	1966	232 <sup>g</sup>	1.80	5.7	1967-1971	2.2	5.7	—
	1971	285 <sup>g</sup>	2.20	5.7	1972-1976	2.5	4.8	-1.0 <sup>h</sup>

NOTES ON ASSUMPTIONS AND METHODOLOGY :

Study A

(1) Annual transfer of 1 per cent of working population from agriculture to non-agricultural employment.

(2) Annual expenditure of 4 per cent of national income on agricultural development.

Study B

(1) Estimates of additional capital requirements are based on "absorptive capacity" and on the stage of development of countries; they are assumed for Latin America at 14 per cent and for the other under-developed areas at 37 per cent of gross capital formation in 1953.

(2) Estimates of income growth are based on the assumption of a capital-output ratio of 3 to 1.

Study C

(1) Target rate of an annual growth of 2 per cent in per capita national income.

(2) Capital-output ratio of 3 to 1; capital refers to "development capital" only.

Study D

(1) Estimates of additional capital requirements are based on "absorptive capacity".

(2) Capital-output ratio of 2.8 to 1; capital refers to "development capital" only.

(3) It is assumed that marginal savings rate will be appreciably higher than the average savings rate; for most countries the former is taken as roughly twice as high as the average savings rate.

<sup>a</sup> For details of the sources and for definition of the flows of capital under C and D, see the summary of the studies in the text.

<sup>b</sup> The inflow of capital is assumed to be between \$1 billion and \$1.5 billion, but probably nearer to \$1 billion.

<sup>c</sup> Even if allowance were made for a probable rise in domestic savings, the external capital required is expected to be well in excess of \$10 billion per annum.

<sup>d</sup> Estimated by the Division of General Economic Research and Policies of the United Nations Secretariat as explained in the text.

<sup>e</sup> This is the upper limit of additional capital requirement, the lower limit is assumed at \$2.5 billion.

<sup>f</sup> Including Greece, Portugal, Spain and Yugoslavia in Europe, not covered in other studies.

<sup>g</sup> Gross national product.

<sup>h</sup> Under Alternative II computation. According to Alternative I computation for this period, the additional capital requirements in 1972-1976 would be about \$2 billion less per annum than in the period 1967-1971.

tant point to be noted about study D is its assumption of a substantial fall in the volume of foreign capital requirements during the third five-year period — 1972 to 1976. As noted earlier, this follows largely from the assumption that, with the rise in incomes in under-developed countries, a progressively higher proportion of total capital requirements will be financed by domestic savings.

### Estimates of aid requirements for specific purposes

48. The studies summarized above have covered global capital requirements of under-developed countries. There is, in addition, a large number of estimates covering capital requirements for more limited purposes. These consist of estimates of total capital and of foreign aid needed for the development of particular under-developed regions and countries and for specific economic and social projects. In order to shed additional light on the magnitude of the problem of foreign aid it may be useful to review briefly a small sample of these limited estimates made in recent years.

49. A recent example of regional estimates of external capital requirements of under-developed countries is contained in the Charter of Punta del Este.<sup>18</sup> It is estimated that Latin American countries would require a “ minimum ” of \$20 billion of external resources over the next ten years for the purpose of achieving a “ substantial and sustained growth of per capita incomes at a rate designed to attain, at the earliest possible date, levels of income capable of assuring self-sustaining development ”. To reach this objective it is considered that “ the rate of economic growth in any country of Latin America should be not less than 2.5 per cent per capita per year ”.

50. According to the Charter, the United States is to provide, principally in public funds, a major part of the estimated external resources required. As an immediate contribution to the Alliance it has undertaken to provide from public funds more than \$1 billion during the year ending March 1962. It is, furthermore, envisaged that the United States assistance, “ where appropriate, will take the form of grants or loans on flexible terms and conditions ”. The loans are to be provided on a long-term basis, “ where appropriate running up to fifty years at very low or zero rates of interest ”.

51. As shown later in this report, the average net inflow of foreign capital into Latin America during 1956-1959 was about \$1.4 billion per annum. If allowance were made for exceptional payments made to Venezuela for petroleum leases during that period the net annual inflow of capital would be closer to \$1 billion per annum. The gross flow of capital from the United States public funds to Latin America, excluding military grants, in 1959 and 1960 amounted to about \$560 million and \$400 million

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<sup>18</sup> Organization of American States, *Special Meeting of the Inter-American Economic and Social Council at the Ministerial Level*, held in Uruguay, August 1961 (OAS Official Records, OEA/Ser.H/X.1).

respectively.<sup>19</sup> The estimate of foreign capital requirements contained in the Charter of Punta del Este, which amounts to a minimum of \$2 billion per year, of which a large part is to be in the form of United States public loans and grants, would therefore imply an appreciable rise in the total volume of capital inflow and especially in the flow of public loans and grants over the next decade.

52. Some of the development plans prepared by under-developed countries also contain estimates of the foreign capital needed for the implementation of their plans. A recent example of this is provided by the Indian Third Five-Year Plan<sup>20</sup> which covers the period 1961-1966.<sup>21</sup> As shown below, this plan envisages a significant increase in the inflow of foreign capital, as compared with the preceding plan.

53. One of the principal aims of the plan is to secure an increase of about 30 per cent in national income during the five years covered by it. This corresponds to an annual rise of over 5 per cent in national income and of about 3 per cent in per capita income. To achieve this target rate of growth, it is considered that a certain minimum development should take place in different sectors of the economy during the five years covered by it. Detailed physical targets of production for major industries and commodities are set in the plan keeping these minimum development needs in view.

54. The plan envisages a total net investment of Rs. 104 billion (about \$22 billion), of which about 60 per cent is accounted for by public investment and the balance by private investment. As compared with the Second Five-Year Plan, the Third Plan provides for an increase of about 54 per cent in total investment — 70 per cent in public sector and 32 per cent in private sector investment. The rise in national income during the Third Plan is estimated at about Rs. 45 billion, which corresponds to an over-all capital-output ratio of about 2.3 to 1 for the entire period of the plan.

55. The total external assistance required for the Third Plan is estimated at about Rs. 26 billion (\$5.5 billion) as compared with Rs. 9.3 billion<sup>22</sup> (about \$2 billion) received during the Second Plan. The above figures exclude imports of surplus products from the United States under Public Law 480 valued at about Rs. 5.3 billion (\$1.1 billion) during the Second Plan and at about Rs. 6 billion (\$1.3 billion) in the Third Plan. The average foreign aid requirements, including imports under Public Law 480, are thus estimated at about \$1.4 billion per annum during the Third Plan, as compared with a figure of about \$600 million for the Second Plan.

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<sup>19</sup> The net flow of capital amounted to \$340 million in 1959 and to \$184 million in 1960. Military grants in the two years, not included in the above figures, were about \$60 million and \$70 million, respectively.

<sup>20</sup> Government of India, Planning Commission, *Third Five-Year Plan* (Delhi, 1961).

<sup>21</sup> From 1 April 1961 to the end of March 1966.

<sup>22</sup> This figure includes net drawings on the International Monetary Fund.

56. A good example of estimates of foreign aid needs of under-developed countries for a specific development programme is contained in the documents published by the Conference of African States on the Development of Education in Africa, held in Addis Ababa in May 1961.<sup>23</sup> The general purpose of the education plan as stated in these documents is to provide for each African state "a full and balanced educational programme", with a view to enabling "every individual, male and female, to make the maximum contribution to society which his mental endowments and physical conditions will permit".

57. On the basis of the inventories of education needs of each African country covered by the plan<sup>24</sup> a programme is prepared for increasing school enrolments at the various levels of education during the years 1961 to 1980. The education programme is to be achieved in two phases. The first phase is reflected in a short-term plan and covers the years 1961 to 1965. It emphasizes the expansion of second-level education, which will produce a substantial rise in the level of specialized manpower required for economic development and of suitable cadres for higher education and for teaching primary schools. The long-term plan (1961-1980), which includes the short-term priority action mentioned above, is designed to enable the African States to achieve a desirable educational pyramid.

58. Table 4 shows the targets of enrolments at different levels of education under the plan. It can be seen that the plan aims at providing universal primary education within two decades. It also provides for an eight- to ten-fold increase in the percentage of age groups enrolled in second-level and higher education during that period.

59. The total cost of the above education plan is expected to increase steadily from \$590 million in the first year of the programme to \$1,150 million in 1965, \$1,880 million in 1970 and \$2,600 million in 1980 (see table 5). To estimate the domestic resources available for education, projections are made of national income of the African States for the period covered by the plan. It is further assumed that the share of national income devoted to education will rise from 3 to 4 per cent between 1961 and 1965, and thereafter will increase further, reaching 6 per cent of national income by 1980. The difference between total costs and domestic resources allocated to education represents a deficit in resources which should be covered by foreign aid.

60. It can be seen from table 5 that the estimates of foreign aid requirements under the African education plan rise from \$140 million in the first year of the plan to \$450 million in 1965 and to about \$1 billion in 1970. On the assumption of a pronounced acceleration in the rate of growth of

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<sup>23</sup> ECA and UNESCO, *Outline of a Plan for African Educational Development* (Unesco/ED/180); and *Final Report* (Unesco/ED/181).

<sup>24</sup> The plan covers only thirty-five states and territories of Africa. It excludes, in particular, the countries bordering on the Mediterranean and South Africa. The word "Africa" is used in the text as meaning the thirty-five states and territories covered by the plan.

Table 4. African education, long-term plan (1961-1980) enrolments

<i>Level of education</i>	<i>Base year 1960-1961</i>	<i>1961-1962</i>	<i>1965-1966</i>	<i>1970-1971</i>	<i>1980-1981</i>
<i>Enrolments (in thousands)</i>					
Primary .....	11,187.0	11,586.0	15,279.0	20,378.0	32,808.0
Second level .....	816.6	903.7	1,833.5	3,390.0	5,905.4
Higher .....	25.0	25.5	30.3	55.0	328.0
<i>Percentage of age group enrolled</i>					
Primary .....		40.0	51.0	71.0	100.0
Second level .....		3.0	9.0	15.0	23.0
Higher .....		0.2	0.2	0.4	2.0

Source: ECA and UNESCO, *Outline of a Plan for African Educational Development (Unesco/ED/180)*.

Table 5. African education, short and long-term plans, estimated costs, local resources, deficits

<i>Year</i>	<i>Total costs</i>	<i>Estimated local resources (millions of dollars)</i>	<i>Deficit</i>
1961 .....	590	450	140
1962 .....	650	500	150
1963 .....	820	560	260
1964 .....	940	630	310
1965 .....	1,150	700	450
Total (short plan) .....	4,150	2,840	1,310
1970 .....	1,880	870	1,010
1980 .....	2,600	2,200	400

Source: ECA and UNESCO, *Outline of a Plan for African Educational Development (Unesco/ED/180)*; and *Final Report (Unesco/ED/181)*.

the national income of Africa in the nineteen seventies,<sup>25</sup> a larger share of education would, according to the plan, be defrayed from domestic resources, and it is estimated that the amount of foreign aid required for the programme will decline to \$400 million by 1980.

61. The need for a significant rise in the present level of foreign aid to meet the requirements of the education plan mentioned above is presented in the following passage extracted from the plan: "In the present state of its educational development, Africa needs assistance in the form

<sup>25</sup> It is assumed that the national income of Africa will rise by about 50 per cent from 1960 to 1970, and by about 70 per cent from 1970 to 1980.



of cash grants and materials, services of essential personnel, and provision of training facilities abroad. It is true that this help is being given now to an appreciable extent. But the size of the problem is so immense that the extent of the existing external aid will have to be more than doubled during the next five years and almost quadrupled between 1966 and 1970.”

62. The above sample of three estimates of aid requirements for specific purposes is too small to provide a reliable basis for estimating total foreign capital needs of the under-developed countries; it covers only a small fraction of such needs. The limited estimates covered by the sample, nevertheless, suggest that estimates of the additional foreign capital requirements of the under-developed countries of about \$3 billion per annum summarized under B, C and D in table 3 are conservative rather than extreme.

## II. RECENT FLOW OF CAPITAL TO LESS DEVELOPED COUNTRIES

63. Estimates of the flow of capital and of economic assistance to under-developed countries in recent years vary, largely according to the definition of these terms. In the two studies summarized in sections C and D above, the recent annual flow of foreign "development capital" is estimated at about \$4 billion and \$3.65 billion respectively. As noted earlier, the authors of the two studies have made a number of deductions from the total flow of capital in estimating the volume of inflow of capital which they consider significant for economic development.<sup>26</sup>

64. More detailed estimates of the flow of foreign capital into under-developed countries are provided in a 1961 publication of the OEEC<sup>27</sup> and in the report of the Secretary-General to the sixteenth session of the General Assembly, prepared by the United Nations Secretariat.<sup>28</sup> No attempt is made in these two reports to distinguish between the flows of actual and "development capital" as was done in the two studies mentioned above.

65. In the OEEC study, the average flow of financial resources from the developed member and associate countries of the OEEC to countries in the course of development during 1956-1959 is estimated at \$6.8 billion per year. Of this, an amount of \$0.5 billion was channelled through international agencies, leaving \$6.3 billion per annum as the estimate for bilateral assistance. The United Nations report, on the other hand, estimates the net flow of long-term capital and official donations from developed countries of North America, western Europe, Australia, Japan and New Zealand at \$4.5 billion per year for the same period. This figure excludes funds made available to international financial agencies.

66. The wide discrepancy between the two sets of estimates is largely explained by differences in the basis of reporting and in definition. OEEC estimates are derived from information supplied directly by governments of developed countries for the purpose of its study on capital flows. United Nations estimates, on the other hand, are based mainly on the balance-of-payments data and conform to the definitions of the IMF for long-term capital and official grants. The OEEC definition of economic assistance is not identical with that of balance-of-payments statements on flows of funds. It includes certain current outlays (for example, grants for current purposes to overseas territories and associated countries) as well

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<sup>26</sup> Moreover, in the study reviewed in section D no account is taken of the expenditure on technical assistance estimated by the author annually at \$250 million to \$300 million.

<sup>27</sup> Organization for European Economic Co-operation, *The Flow of Financial Resources to Countries in Course of Economic Development, 1956-1959* (Paris, 1961).

<sup>28</sup> United Nations, *International Flow of Long-term Capital and Official Donations, 1951-1959* (Sales No.: 61.II.D.1).

as some capital flows that are treated as "short-term" transactions in the balance-of-payments accounts, such as undisbursed proceeds from sale of surplus commodities by the United States. It also includes estimates for certain transactions which are not included in balance-of-payments statements, notably export credit guarantees. Part of the discrepancy between the two estimates is explained also by the difference in country coverage used in the two studies and by a number of statistical factors.<sup>29</sup>

67. For a detailed discussion of the volume, distribution and trend of the flow of capital into under-developed countries in the years 1951-1959 reference is made to the above-mentioned report of the United Nations. In the remaining part of this section, however, some of the important conclusions which emerge from that report and which are relevant to this paper are briefly summarized. For convenience, throughout the following pages, the report in question is referred to simply as the "United Nations report".

68. According to the United Nations report the net flow of long-term capital and official donations from developed countries of North America, western Europe, Australia, Japan and New Zealand into under-developed areas of the world amounted to \$32.4 billion during the period 1951-1959. In addition, commitments of economic assistance by the centrally planned countries totalled nearly \$2.2 billion by the end of 1959, and an amount of over \$1.6 billion was provided as loans, net of repayments, by the IBRD and the IFC. After making rough adjustments for these and other omissions from the figure of \$32.4 billion, the report estimates the total flow of capital into under-developed countries during the years 1951-1959 at about \$35 billion to \$36 billion.

69. The above figure of inflow of foreign capital, though sizable in relation to the resources of under-developed countries, represents no more than a small fraction of the annual production and income of the developed

DEVELOPED COUNTRIES: NET INTERNATIONAL FLOWS OF LONG-TERM CAPITAL AND OFFICIAL DONATIONS TO UNDER-DEVELOPED COUNTRIES IN RELATION TO SELECTED VARIABLES, 1956-1959

	<i>Net long-term capital and official donations</i>		
	<i>Per capita (dollars)</i>	<i>As percentage of</i>	
		<i>Gross domestic product</i>	<i>Gross domestic saving</i>
Total .....	8	0.6	2.9
Official donations .....	4	0.28	1.44
Long-term capital:			
Official and banking .....	1.8	0.13	0.65
Private .....	2.3	0.16	0.84

Source: United Nations, *International Flow of Long-term Capital and Official Donations, 1951-1959*, table 6.

<sup>29</sup> For a more detailed explanation of the discrepancy between the two estimates see annex to United Nations, *International Flow of Long-term Capital and Official Donations, 1951-1959*.

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Table 6. Selected under-developed countries: Averages of net international flows of long-term capital and official donations, by region, 1951-1955 and 1956-1959

(Millions of dollars per annum)

Region <sup>a</sup>	Total		Net official donations		Net long-term capital					
					Total		Official and banking		Private	
	1951-1955	1956-1959	1951-1955	1956-1959	1951-1955	1956-1959	1951-1955	1956-1959	1951-1955	1956-1959
Africa .....	615	634	155	319	460	316	313	233	147	83
Latin America .....	678	1,409	89	190	587	1,218	144	148	443	1,071
Middle East .....	338	621	233	336	104	287	62	200	42	87
South-East Asia .....	216	612	183	341	37	270	4	249	33	21
Other .....	561	582	218	142	345	439	105	76	239	363
TOTAL	2,408	3,858	878	1,328	1,533	2,530	628	906	904	1,625

Source: For source and footnotes see United Nations, *International Flow of Long-term Capital and Official Donations, 1951-1959*, table 8.

<sup>a</sup> Only countries for which comparable data are available for the period 1951-1959 are included within each region.

countries. It can be seen from the table on page 21 that the flow of capital into under-developed countries in 1956-1959 represented a per capita contribution on the part of developed countries of \$8 per annum, and was equal only to about 3 per cent of gross domestic savings and to slightly over one-half per cent of gross domestic product of the developed countries. The component of official donations accounted for about one-half of the capital flow.<sup>30</sup>

70. The flow of capital is divided in the report into three major streams; official donations, long-term private, and official and banking capital, as defined by the IMF.<sup>31</sup> For the under-developed countries as a whole, according to the report, "official donations constituted the largest component, and were followed by private capital and official and banking capital, in that order. However, the relative importance of these components varied widely from country to country. For example, while private capital was the most important source of long-term finance for Latin America, official donations were the predominant source of funds in South-East Asia during the period 1951 to 1959 as a whole."

71. There has been a marked upward trend in the flow of capital into under-developed countries in the nineteen fifties. This development is clearly indicated in table 6, which covers a selected, but large, group of under-developed countries for which comparable data are available for the decade as a whole. As the report points out, "the net flow of long-term capital and official donations into under-developed countries for which comparable data are available increased by three-fifths between 1951-1955 and 1956-1959, rising from an annual average of \$2.4 billion to \$3.9 billion. The increase is even more sharp if allowance is made for the payments made by these countries during the latter period in connexion with the increase in membership quotas of IMF.<sup>32</sup> The Latin American countries received the largest absolute increase in the net flow between 1951-1955 and 1956-1959, although the rate of increase was the highest in South-East Asia. The rate of increase was also sharp in the Middle East, but the other regions recorded only nominal increases. A relatively high proportion of the increased flow of capital to Latin America was received by Venezuela, largely under the impetus provided by the leases for the exploration and development of petroleum.

<sup>30</sup> These figures do not include the flow of capital from international agencies to under-developed countries, which is largely provided by developed countries. As shown later, however, the volume of this flow is too small to affect significantly the conclusions derived from the table.

<sup>31</sup> According to this definition "long-term private capital" includes reinvested earnings of foreign companies and their subsidiaries. Such reinvested earnings have been included, wherever available, in the IMF balance-of-payments statements.

<sup>32</sup> These payments have been deducted from the gross inflow of capital in computing the figures of net inflow shown in table 6. If no such deduction were made, the average for 1956-1959 would be raised from \$3.9 billion to \$4.3 billion, thus indicating an increase of four-fifths over the average for 1951-1955.

### III. IMPACT OF EXISTING INSTITUTIONS

72. It would be impossible within the scope of this report to trace in detail the impact of foreign capital provided by all the existing institutions on the economies of the individual under-developed countries. It is possible, however, to obtain a broad view of the significance of capital flow in recent years by comparing the stream of capital flow with a number of other economic variables, along the lines followed in the above-mentioned United Nations report.<sup>33</sup> Additional light is shed on this subject through a review of the operations of the multilateral agencies which play an important part in providing economic assistance to under-developed countries. In reviewing these operations an attempt is made to explain the nature and to evaluate the scale of the assistance provided in recent years.

#### Economic significance of foreign capital

73. Table 7 provides a rough indication of the importance of foreign exchange receipts of the under-developed countries from the inflow of foreign capital. It can be seen that in 1951-1955, long-term capital and official donations accounted for about 10 per cent of the combined foreign exchange receipts, including merchandise exports, of the under-developed countries. Between 1951-1955 and 1956-1959, the inflow of long-term funds into under-developed countries rose appreciably faster than merchandise exports. Consequently, the relative share of the former in the combined receipts of foreign exchange rose from 10 to 14 per cent. As shown in table 7, the rise in the share of long-term foreign funds between the two periods was very significant in South-East Asia and in Latin America.

74. A further indication of the economic significance of the flow of long-term foreign funds to the under-developed countries is provided by a comparison of the volume of this flow with the domestic resources of the under-developed countries. According to the United Nations report, the per capita inflow of these funds into the under-developed countries in 1958 amounted to about \$4; it ranged from \$2.30 in South-East Asia to about \$6 in Africa and to over \$7 in the Middle East and Latin America. For the under-developed countries as a whole the inflow of long-term foreign funds is roughly estimated at about 2 per cent of their gross domestic product in that year.

75. As explained in the United Nations report, "while it is possible that in some countries a part of the inflow of foreign funds has been utilized to raise levels of consumption, in a large majority of them these funds have been instrumental in augmenting the capital stock. Much of the private capital flow to the under-developed countries has been for

<sup>33</sup> United Nations, *International Flow of Long-term Capital and Official Donations, 1951-1959*, paragraphs 33 to 37.

**Table 7. Under-developed countries: Percentage distribution of major sources of foreign exchange, by region, 1951-1955 and 1956-1959, annual averages <sup>a</sup>**

<i>Region and period</i>	<i>Total</i>	<i>Net long-term capital and official donations</i>	<i>Merchandise exports</i>
<i>Under-developed countries</i>			
1951-1955 .....	100	10	90
1956-1959 .....	100	14	86
<i>Africa</i>			
1951-1955 .....	100	15	85
1956-1959 .....	100	13	87
<i>Latin America</i>			
1951-1955 .....	100	8	92
1956-1959 .....	100	13	87
<i>Middle East</i>			
1951-1955 .....	100	16	84
1956-1959 .....	100	19	81
<i>South-East Asia</i>			
1951-1955 .....	100	5	95
1956-1959 .....	100	14	86
<i>Other</i>			
1951-1955 .....	100	13	87
1956-1959 .....	100	11	89

Source: United Nations, *International Flow of Long-term Capital and Official Donations, 1951-1959*, table 12.

<sup>a</sup> Regional coverage is identical with that shown in the sub-total of table 8 of the source. Differences in time period are indicated in the footnotes to the same table.

purposes of direct investment, and official economic assistance has also generally been tied to specific development projects. It is not unrealistic, therefore, to assume that long-term funds have mainly been for the purposes of capital formation. The relative significance of foreign funds in the financing of capital formation is indicated by the fact that in 1958, on the average, these funds amounted to nearly one-fifth of domestic saving in the under-developed countries.”<sup>34</sup>

76. In examining the contribution of foreign funds to the resources of the under-developed countries, the report notes that “it must also be borne in mind that inflows of foreign capital eventually carry the obligation to service these loans and investments through the payment of interest and dividends. If investment service requirements rise rapidly

<sup>34</sup> *Ibid.*, paragraph 36.

relative to total foreign exchange receipts, it may be necessary for countries to adjust the level and composition of their imports. If the process of adjustment involves reductions in imports of strategic capital goods, the pace of economic development is likely to be adversely affected. That the expanded inflow of foreign official and private capital has in recent years placed a greater draft on foreign exchange earnings is illustrated in the table based on data for forty-nine countries, which appears at the end of this paragraph. Between 1951-1955 and 1956-1959, for these countries as a group, the ratio of investment service payments to export earnings rose from 9.4 to 11.6 per cent".<sup>35</sup>

## NET INTEREST AND DIVIDEND PAYMENTS AS PERCENTAGE OF EXPORTS

Region	Number of countries	1951-1955	1956-1959
Under-developed countries .....	49	9.4	11.6
Africa .....	8	9.9	11.0
Latin America .....	21	12.2	14.7
Middle East .....	8	13.1	16.8
South-East Asia .....	9	3.6	4.4
Other .....	3	0.7	0.9

Source: United Nations, *International Flow of Long-term Capital and Official Donations, 1951-1959*, page 32.

77. A comparison of the above table with table 7 would indicate that for the under-developed countries as a whole a large part of the inflow of foreign capital is offset by the payments of dividends and interest on foreign investment.<sup>36</sup> The relation between the investment service payments and the inflow of capital is determined primarily by the past and current volume and pattern of capital inflow, by profitability of investment and by terms of repayment of loans. In South-East Asia, for example, where private capital has constituted a relatively small proportion of the total inflow of foreign capital, the annual service charges on foreign investment were in the nineteen fifties appreciably smaller than the annual inflow of foreign capital. On the other hand, in Latin America the two flows of funds were almost equal in magnitude. Service charges were also relatively high in relation to the annual inflows of capital in Africa and in the Middle East. This is explained largely by the transmission of profits earned on private foreign capital invested over a long period of time in petroleum and other mineral and primary industries of some of the countries located in these regions.

<sup>35</sup> *Ibid.*, paragraph 38.

<sup>36</sup> The coverage of the two tables is not identical for Africa and South-East Asia. This does not, however, affect significantly the conclusion drawn in the text from the comparison of the two tables.



### Operations of the multilateral agencies

78. By far the largest share of capital inflow into under-developed countries — about 90 per cent of it — is provided on a bilateral basis in the form of private investment and public loans and grants. During 1956-1959, the bilateral official grants and loans accounted for about half of the total flow of capital to under-developed countries, and a further two-fifths, approximately, was accounted for by private investment.

79. The multilateral agencies and programmes, which in recent years have accounted for about 10 per cent of the total flow of long-term capital into under-developed countries, can conveniently be divided into three major groups. The first group covers regional organizations which are not formally connected with the United Nations and its agencies. The second group consists of the United Nations specialized agencies which provide long-term capital for developmental purposes, and the third group, of the United Nations technical assistance and relief agencies, including the Special Fund. A brief review of the type and the scale of assistance given by the above groups of multilateral agencies in recent years is provided below.

#### REGIONAL ORGANIZATIONS

80. The important agencies and programmes falling within this group consist of: the Colombo Plan, which provides economic assistance to the countries in South and South-East Asia; the Technical Assistance Programmes of the OAS, the Inter-American Development Bank and the recently initiated Alliance for Progress programme covering the Latin American countries; and the EEC Development Fund, which covers the overseas countries and territories with which the members of the EEC have special links.

##### *The Colombo Plan*

81. This is a plan for the co-operative economic development of South and South-East Asia. It was conceived in 1950 and now embraces twenty-two countries — sixteen within South and South-East Asia and six outside it.<sup>37</sup> The Plan provides consultative arrangements for reviewing development progress annually, and gives practical assistance in the form of capital aid and technical co-operation. The Colombo Plan is not a multilateral agency in the strict sense of that term. The assistance provided under it is negotiated bilaterally, on a government-to-government basis, without the intervention of any central organization.

82. The Colombo Plan operates through three main bodies: the Consultative Committee, which is an annual meeting of officials from all

<sup>37</sup> The countries within South and South-East Asia consist of: Burma, Cambodia, Ceylon, Federation of Malaya, India, Indonesia, Laos, Nepal, Pakistan, Philippines, Singapore, Thailand and Viet-Nam, together with Brunei, North Borneo and Sarawak, which take part through their association with the United Kingdom; the countries outside that area are: Australia, Canada, Japan, New Zealand, United Kingdom and United States.

member countries directly concerned with the operation of the Plan; the Council for Technical Co-operation, whose main function, with the help of the Director, is the general supervision of the Technical Co-operation Scheme, a task which is achieved by analysing and placing before member countries certain difficulties that emerge from time to time together with recommendations for overcoming them; and, finally, the Bureau, which provides a secretariat for the Council, records all technical co-operation transactions and acts as an information unit.

83. Table 8 gives an indication of the scale of technical assistance and capital aid provided annually under the Plan up to the middle of 1961. It can be seen that expenditure under the Plan, prior to the inclusion of United States technical assistance, has increased steadily since the Plan started its operations; it reached £3.7 million (over \$10 million) in the year 1960-1961. With the inclusion of United States technical assistance to South and South-East Asia in the Plan, total expenditure in that year amounted to over £20 million (about \$56 million).<sup>38</sup>

Table 8. Expenditure under the Colombo Plan, January 1951 to June 1961

(Millions of pounds sterling)

Period <sup>a</sup>	Trainees	Experts	Equipment	Total
1951-1953 <sup>b</sup> .....	...	...	...	0.9
1953-1954 .....	0.5	0.3	0.2	1.0
1954-1955 .....	0.7	0.4	0.5	1.6
1955-1956 .....	1.1	0.5	0.5	2.1
1956-1957 .....	1.5	0.6	0.5	2.7
1957-1958 .....	1.6	0.8	0.6	2.9
1958-1959:				
Excluding United States .....	1.8	0.8	0.6	3.1
Including United States .....	4.4	9.8	4.2	18.4
1959-1960:				
Excluding United States .....	2.0	0.8	0.5	3.4
Including United States .....	5.3	8.6	3.0	16.9
1960-1961:				
Excluding United States .....	2.1	1.0	0.6	3.7
Including United States .....	5.8	8.7	5.7	20.2

Source: Council for Technical Co-operation in South and South-East Asia, *Technical Co-operation under the Colombo Plan: Report for 1959-60* (Ceylon, 1960); and direct communication.

<sup>a</sup> Year ending 30 June of the second year specified on each line.

<sup>b</sup> From 1 January 1951 to 30 June 1953.

<sup>38</sup> The United States, which joined the Colombo Plan in 1951, became a full member of the Council for Technical Co-operation in January 1959. It was agreed that all its technical assistance to South and South-East Asia provided through the International Co-operation Administration should in future be counted as part of technical co-operation under the Colombo Plan.

84. As indicated by table 8, by far the larger share of assistance given under the Plan is in the form of training opportunities and of services of experts. Part of the assistance is in the form of equipment which is provided for training and for the use of technical experts in the area.

*OAS programmes of technical co-operation and direct technical assistance*

85. The Programme of Technical Co-operation was initiated in 1950 to provide means for strengthening teaching institutions in Latin America and to assist the member States in solving the problem of shortages of highly trained technicians. Under the programme, a number of inter-American centres and institutes are set up in different countries, which provide training facilities to Latin Americans in such fields as agriculture and husbandry, social sciences, business administration and urban and regional planning. Expenditure under this programme has been on a relatively modest scale of about \$2 million per annum in recent years.

86. To increase the scale of its technical assistance activities, the OAS initiated the Direct Technical Assistance Programme on 1 July 1958. The programme was created to provide the services of experts and specialists to the governments of the member States through short-term missions. Up to the end of 1960, some ninety-five missions were sent under the programme to advise governments on rural development, housing, education, statistics and on general problems of economic and social developments. The cost of this programme has been relatively small; for the fiscal year ended 30 June 1961, for example, an amount of only \$150,000 was appropriated to it.

*Inter-American Development Bank*

87. The agreement establishing the Inter-American Development Bank entered into force on 30 December 1959. The purpose of the Bank is to contribute to the acceleration of the process of economic development of its member countries.<sup>39</sup> To carry out this purpose the Bank is to promote public and private investment for development purposes and to provide technical assistance for the preparation, financing and implementation of development plans and projects.

88. The total internal resources of the Bank amount to about \$960 million, of which \$813 million<sup>40</sup> is in the form of subscriptions to ordinary capital and \$146 million represents contributions to the "Fund for Special Operations". The United States share in subscribed capital amounts to \$350 million and its contribution quota to the Fund is \$100 million. By the end of October 1961, contributions of \$146 million to the Fund had

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<sup>39</sup> The membership of the Bank consists of nineteen Latin American countries and the United States.

<sup>40</sup> Consisting of \$381.6 million in paid-in capital and \$431.6 million in callable capital.

been paid almost in full, and an amount equivalent to about \$227 million was received in respect of subscriptions to ordinary capital.

89. The operations of the Bank are divided into two separate branches. "The ordinary operations", which are financed from the ordinary capital resources of the Bank,<sup>41</sup> consist of loans made, participated in or guaranteed by the Bank which are repayable in the currencies in which loans are made. These loans are made on terms similar to those of other international financial agencies. "The special operations" consist of loans financed from the resources of the Fund. These loans are made on easier terms and conditions and are repayable wholly or in part in the currencies of the recipient countries.

90. In addition to operations from its own resources, the Bank in June 1961 signed an agreement with the United States Government pursuant to the Act of Bogotá whereby it became administrator of the Social Progress Trust Fund. This fund consists of \$394 million of the \$500 million provided by the United States Government to promote social progress in Latin America as part of the Alliance for Progress programme.

91. Between 1 October 1960, when the Bank began formal operations, and the end of July 1961, it had approved more than \$92 million in loans to Latin American countries. Fourteen loans totalling about \$56 million were granted from the ordinary resources of the Bank and nine loans totalling more than \$36 million were made from the Fund for Special Operations. During this period the Bank concentrated its operations on global loans to development banks and institutions and on public utilities, with special emphasis on water supply. Loans also were granted for a number of industrial and agricultural projects and for highway construction and rehabilitation of mines.

92. In the remaining five months of 1961, over fifty additional loans totalling about \$202 million were granted by the Bank: about \$116 million from the Social Progress Trust Fund; over \$74 million from the ordinary resources of the Bank; and over \$12 million from the Fund for Special Operations. The loans from the Social Progress Trust Fund were directed largely at financing housing projects and at improving water and community sanitation facilities. The loans from the Bank's own resources were for public utilities and for industrial and agricultural development.

#### *EEC Development Fund*

93. This fund was set up by the members of the EEC to promote social and economic development in the overseas countries and territories with which they have special links. The contributions by member States of the Community are scheduled to amount to \$581.3 million over the five-year period, 1958-1962. The schedule of contributions is indicated in the following table:

<sup>41</sup> These resources consists of subscriptions to ordinary capital, funds raised by borrowing, money received in repayment of loans from ordinary capital and income derived from such loans.

## CONTRIBUTIONS TO EEC DEVELOPMENT FUND

*(Millions of dollars)*

Country	1958	1959	1960	1961	1962	Total
Belgium .....	7.0	8.8	11.6	15.8	27.0	70.0
Federal Republic of Germany	20.0	25.0	33.0	45.0	77.0	200.0
France .....	20.0	25.0	33.0	45.0	77.0	200.0
Italy .....	4.0	5.0	6.6	9.0	15.4	40.0
Luxembourg .....	0.1	0.2	0.2	0.3	0.5	1.3
Netherlands .....	7.0	8.8	11.6	15.8	27.0	70.0
TOTAL	58.1	72.7	95.9	130.8	223.8	581.3

Source: United Nations, *International Economic Assistance to the Less Developed Countries* (Sales No.: 61.II.B.2).

94. Assistance from the Fund, which is to be provided in the form of grants, is intended to be complementary to direct contributions of the responsible member States. Two principal types of project may be financed by the Fund:

“(a) [The building of] certain social institutions, in particular, hospitals, teaching and technical establishments, and institutions for vocational training and for the promotion of professional activities among the population, and

“(b) Economic investments of general interest directly connected with the implementation of a programme of specific and productive development projects.”

95. The Fund started operations at the end of 1958. By the end of March 1961 commitments of about \$130 million had been approved by it. It can be seen from the following table that social projects accounted for about 45 per cent of the total assistance authorized and economic projects for the balance of 55 per cent. The largest single group of projects consists of investment in infrastructure, which accounted for about 40 per cent of total funds authorized. Owing to a long lead between the approval and expenditure of the funds, disbursements from the Fund have been considerably below the value of commitments; they are estimated at about \$7 million in 1960.

96. It can be seen that the economic assistance provided by the regional multilateral organizations described above was on a relatively modest scale up to 1960. Even if the assistance provided by the Colombo Plan, which, as noted earlier, is not a strictly multilateral agency, were included in this category of aid, the total assistance would amount to less than 2 per cent of the annual flow of long-term capital to under-developed countries. The scale of assistance provided by the regional organizations should, however, increase considerably if the future operations of the Inter-American Development Bank and, in particular, of the Alliance for Progress programme in Latin America, described earlier, attain the scale envisaged for them.

## EEC DEVELOPMENT FUND

*Details of projects approved as at 31 March 1961<sup>a</sup>**Millions of dollars**Social projects*

Teaching, occupational and social training .....	16.6
Health .....	18.8
Water supply .....	3.6
Town-planning .....	7.1
Studies and research .....	11.5

TOTAL 57.6

*Economic projects*

Infrastructure (transport, communications) .....	49.5
Production (agriculture, stockbreeding) .....	21.4
Studies and research .....	0.5

TOTAL 71.4

COMBINED TOTAL 129.0

*Source: European Economic Community Commission, Fourth General Report on the Activities of the Community (May 1961).*

<sup>a</sup> Excluding economic projects of \$31.7 million accepted by the Commission for which the approval of the Council was pending on 31 March 1961.

## UNITED NATIONS SPECIALIZED AGENCIES: IBRD, IFC AND IDA

97. The second group of multilateral agencies is represented by those specialized agencies of the United Nations which provide long-term capital for economic development. This group, responsible in 1960 for over half the flow of multilateral assistance to the under-developed countries, consists of the IBRD and its affiliates, the IFC and IDA.<sup>42</sup>

98. The IBRD (or World Bank) has been in operation since 1946, and has been lending to the under-developed countries since 1948. It has seventy-four member countries, and a subscribed capital of about \$20.5 billion, of which over \$2 billion has actually been paid in and is available for lending. Each member has 250 votes plus one additional vote for each share of stock held. While the paid-in capital provided the bulk of the funds available for lending by the Bank in its early years, the Bank now relies to a much greater extent on its own borrowings in the capital markets of the world, through bond issues which it makes on the security of the uncalled nine-tenths of member countries' subscriptions.

99. Interest on World Bank loans is fixed at a rate about 1  $\frac{3}{4}$  per cent higher than it itself currently has to pay to raise funds in the capital market. Loans are made either to member governments or to government agencies or private enterprises in the territories of member countries;

<sup>42</sup> The IMF, which provides only foreign exchange assistance for the solution of temporary balance-of-payments problems, is not included among these agencies.

the loans not made directly to governments must bear a government guarantee. The scale of operations of the Bank has expanded considerably in the course of the last decade, and although it has remained relatively stable in the past four years, annual loan commitments have been in the region of \$700 million, of which nearly \$540 million has been in loans to under-developed countries. Total loans to 30 June 1961, net of cancellations and refundings, amounted to almost \$5.7 billion, financing about 800 projects in fifty-seven countries; nearly \$3.5 billion had been lent to the under-developed countries. Gross disbursements have averaged rather over \$500 million annually during the past four years; on a net basis (gross disbursements less repayments), and taking the under-developed countries alone, disbursements have risen from an annual average of about \$125 million in 1951-1955 to \$240 million over the years 1956-1959, about the same level being maintained in 1960. At the 1956-1959 level, disbursements by the Bank amount to slightly over 5 per cent of the total annual flow of long-term capital and official donations to under-developed countries in 1956-1959 as estimated by the United Nations report. The Bank's latest report<sup>43</sup> indicates, on the basis of a recent "marked increase" in the number of project appraisals completed by the Bank's staff, that a considerable rise in loan commitments is probable over the next year or two.

100. Table 9 provides a general indication of the distribution of the loans granted by the World Bank by area and purpose. It can be seen that of the total loans of \$5.7 billion advanced up to the middle of 1961, about \$4 billion represent loans given to the under-developed areas.<sup>44</sup> By far the largest portion of the latter — about 75 per cent — is intended to provide funds for investment in infrastructure — electric power, transportation and communications. The remainder is for investment in agriculture and industry, including mining.

101. In addition to the supply of investment funds, the Bank also provides a variety of technical assistance services to its member countries, the scale of which has expanded steadily over the last fourteen years. The Bank prepares comprehensive general economic surveys which examine the development potential of the countries concerned and recommend the main directions which planning and investment should take. It provides advisory assistance to its member countries through visiting missions, resident Bank representatives, and through staff members seconded to governments. In addition, the Bank's General Training Programme and its Economic Development Institute provide training facilities for officials from member countries. The cost to the Bank of these technical assistance services to member countries amounted to about \$1.4 million in 1960, and is estimated at about the same level for 1961.

102. The IFC was established in 1956 to provide loan and venture capital, without government guarantee, to private enterprises in the less

<sup>43</sup> International Bank for Reconstruction and Development, *Sixteenth Annual Report, 1960-1961* (Washington, D.C., 1961).

<sup>44</sup> Including loans of about \$640 million advanced to Japan and the Republic of South Africa.

Table 9. IBRD loans classified by purpose and area, 30 June 1961  
(Millions of dollars, net of cancellations and refundings)

Purpose	Total	Under-developed areas			Developed areas			
		Total	Africa <sup>a</sup>	Asia and Middle East <sup>b</sup>	Western hemisphere	Total	Australia	Europe <sup>c</sup>
Development loans .....	5,172.0	3,939.6	799.8	1,938.3	1,201.5	1,232.4	317.7	914.7
Electric power .....	1,740.9	1,323.6	186.4	479.3	657.9	417.3	29.3	388.0
Transportation .....	1,823.3	1,622.6	418.2	816.5	387.9	200.7	132.3	68.4
Communications .....	23.9	23.7	1.5	—	22.2	0.2	—	0.2
Agriculture and forestry .....	496.3	305.1	50.7	169.5	84.9	191.2	103.4	87.8
Industry <sup>d</sup> .....	882.6	549.6	103.0	398.0	48.6	333.0	52.7	280.3
General development .....	205.0	115.0	40.0	75.0	—	90.0	—	90.0
Reconstruction loans .....	496.8	—	—	—	—	496.8	—	496.8
<b>TOTAL</b>	<b>5,668.8</b>	<b>3,939.6</b>	<b>799.8</b>	<b>1,938.3</b>	<b>1,201.5</b>	<b>1,729.2</b>	<b>317.7</b>	<b>1,411.5</b>

Source: International Bank for Reconstruction and Development, *Sixteenth Annual Report, 1960-1961* (Washington, D.C.).

<sup>a</sup> Including loans of about \$200 million to the Union of South Africa.

<sup>b</sup> Including loans of about \$440 million to Japan.

<sup>c</sup> Including loans of about \$60 million to Turkey and of about \$90 million to Yugoslavia.

<sup>d</sup> Including mining.



developed countries. It operates on a considerably more modest scale than the Bank, drawing for its investments on a capital of \$97 million subscribed by its member countries. By the middle of 1961 it had made forty investments valued at about \$44 million, mostly for the promotion of manufacturing industry. About \$4 million was invested in Australia and western Europe, and the balance of \$40 million in under-developed countries; the Latin American countries accounted for \$34 million of the latter figure.

103. The IDA came into existence in September 1960. Although an affiliate of the Bank, sharing the same directors, management and staff, its financial resources are entirely separate. It was established in order to provide long-term capital for development purposes, on terms bearing less heavily on the balance of payments of the recipient countries than the terms of conventional loans such as those provided by the World Bank. All member countries of the World Bank are eligible to join IDA: by the close of 1961, fifty-six countries had done so, subscribing about \$912 million. Subscriptions to IDA are proportionate to the member countries' subscriptions to the World Bank. However, only the developed countries pay their full subscription in convertible currencies; 90 per cent of the subscriptions of the under-developed countries is payable in their own currencies and may not be converted or used by IDA for projects outside the territories of such countries without their permission. The freely usable portion of IDA's subscribed capital, which will become available over the five years 1960-1964, amounts at present to about \$757 million.

104. IDA may lend for projects similar to those financed by the Bank, but may also extend into a rather wider field; it has already committed funds for water supply, and its First Annual Report indicates that it will probably make available development credits for technical education. Although IDA officially began operations in November 1960, its first credit was not extended until May 1961. Between that time and the end of December 1961, IDA extended eighteen credits totalling about \$181 million to ten under-developed countries; their purpose included road construction, harbour dredging, inland ports, irrigation, drainage and flood protection, the finance of small industry and water supply. These credits have a fifty-year maturity period and bear no interest or commitment charges; amortization begins only after a ten-year period of grace. Each credit, however, carries a small service charge — three-quarters of 1 per cent — to meet the administrative expenses of IDA.

105. IDA's Articles of Agreement require that the adequacy of its resources be kept under regular review. Its initial resources are intended to cover IDA's needs for its first five years of operations, but nearly a quarter of these funds has been committed in the course of eight months' lending. The President of IDA cautioned in his address to the annual meeting of the Association's Board of Governors, held in September 1961, that "IDA's major problem will be the meagreness of its present resources" and added that "it is none too early to ask ourselves what the future of IDA might be."

UNITED NATIONS RELIEF AGENCIES AND TECHNICAL  
AND PREINVESTMENT ASSISTANCE

106. The third group of multilateral agencies, which consists of technical assistance and relief programmes operated by the United Nations and its specialized agencies, accounts for a relatively small share of the flow of capital to under-developed countries. The most important relief and rehabilitation programme is operated by UNRWA for Palestine refugees. This agency began operations in 1950; it supplies relief — food, shelter, medical care, education and vocational training — to over one million refugees. The value of assistance provided by it in 1960 and 1961 amounted to about \$35 million per year. Relief to refugees is also provided by the Office of the United Nations High Commissioner for Refugees (UNHCR) which was established in 1951. The High Commissioner has under his mandate an estimated one and one-third million refugees in different parts of the world. The assistance provided by this programme was about \$1.3 million in 1961 and will probably be maintained at about the same level in 1962.

107. UNICEF, in the years immediately following its establishment by the United Nations General Assembly in December 1946, had been devoted mainly to assisting children in war-devastated countries, but since December 1950, it has shifted its emphasis to aid for long-range child programmes, chiefly in the economically less advanced areas. UNICEF aid to benefit children is at present given in the fields of health, nutrition and social welfare; its efforts in these fields are closely co-ordinated with the work of WHO and FAO.

108. UNICEF furnishes the essential supplies and equipment needed for government projects and provides material and financial aid to training programmes and centres; in some cases it grants stipends for students and helps to pay teachers' salaries for an initial period. It also assists governments to plan their child care programmes. Both the governments and UNICEF receive technical advice from other United Nations departments and from specialized agencies.

109. Administration of UNICEF-aided projects is the responsibility of the governments, which provide buildings, staff and locally available supplies. In recent years governments have provided on the average an equivalent of about \$2.50 in "matching funds" for every \$1.00 allocated by UNICEF. Programme allocations by UNICEF in 1960 and 1961 amounted to about \$26 million and \$28 million respectively; actual expenditures on the programmes were slightly over \$21 million in 1960 and are estimated at about the same level for 1961. UNICEF is currently aiding over 450 projects in 107 countries.

110. Technical assistance provided by the United Nations family of organizations is operated through the Expanded Programme of Technical Assistance (EPTA) in which the United Nations and eight of its specialized agencies participate,<sup>45</sup> and, on a relatively smaller scale, through the regular

<sup>45</sup> These agencies consist of FAO, IAEA, ICAO, ILO, ITU, WHO, WMO and UNESCO.

programmes of the United Nations and of some specialized agencies. The assistance given by EPTA to governments takes the form of experts' services, fellowships and study grants, and the provision of equipment and supplies used primarily for training and demonstration purposes. The following table shows the respective shares of these three main categories of assistance in the years 1958 to 1960.

TYPES OF ASSISTANCE GIVEN UNDER EPTA, 1958-1960

(Cost in thousands of dollars)

	1958		1959		1960	
	Number	Cost	Number	Cost	Number	Cost
Experts . . . . .	2,427	23,018	2,291	22,266	2,207	21,733
Fellowships . . . . .	1,759	3,696	2,107	4,482	2,017	4,795
Equipment and supplies		3,213		1,922		1,385
TOTAL		29,927		28,670		27,913

Source: Official Records of the Economic and Social Council, Thirty-second Session, Supplement No. 5, document E/3471.

111. In addition to its country programmes, the Expanded Programme also has a large number of regional and interregional projects. The latter, which account for over 10 per cent of total project costs of EPTA, aim primarily at providing practical and theoretical training in the various fields with which the programme is concerned. They include temporary short-term training centres, and assistance in the establishment of permanent training institutions. In addition, some regional projects consist of the provision of expert advisory services to groups of countries. During 1960 EPTA provided assistance to 103 countries and territories; another twenty-three countries and territories participated in its regional and interregional projects.

112. An indication of the major fields of activity of EPTA and the scale of assistance provided in each field during the years 1958-1960 may be gathered from table 10. It can be seen that the total annual cost of projects remained relatively stable at a level slightly lower than \$30 million during those years.<sup>46</sup> For the years 1961-1962, however, the Technical Assistance Committee has approved a two-year field programme of about \$71 million, and government pledges for 1961 and 1962 will make it possible to carry out a programme of this size over the biennium.

113. Apart from the above activities financed by the Expanded Programme, some of the participating organizations also provide technical

<sup>46</sup> The total cost of the Expanded Programme is somewhat higher than indicated in the table, since in addition to the project costs an amount of about \$6 million is annually spent in respect of administrative and operating costs of the participating organizations and of the TAB.

**Table 10. EPTA project costs by field of activity, 1958-1960**  
(Thousands of dollars)

<i>Field of activity</i>	1958	1959	1960
Assisting governments with the formulation and implementation of development plans — basic surveys of resources and building up of administrative services .....	3,985	3,704	4,076
Development of public utilities — power, transport and communications .....	2,450	2,460	2,381
Industrial production .....	2,359	2,437	2,381
Agricultural production .....	6,843	6,424	6,235
Auxiliary services to industry and agriculture ....	2,481	2,489	1,809
Health services .....	5,077	4,697	4,762
Education .....	3,700	3,436	3,484
Community development .....	2,073	2,045	1,860
Other social services .....	959	978	856
TOTAL	28,927	28,670	27,844 <sup>a</sup>

Source: *Official Records of the Economic and Social Council, Thirty-second Session, Supplement No. 5, document E/3471.*

<sup>a</sup> Excluding an amount of \$68,865 in undistributed project costs (UNTA).

assistance on a reimbursable or payment basis at the request of recipient governments. Since this type of assistance is provided through *ad hoc* project agreements cutting across calendar years, it is difficult to compute its exact value for a given calendar year. It is estimated, however, that the assistance provided by four of the participating organizations alone — the United Nations, FAO, ILO and ITU — on a payment basis amounted to about \$2.5 million in 1960.

114. As noted earlier, the United Nations and some of the specialized agencies, in addition to participating in the Expanded Programme, also have their own regular programmes of technical assistance financed from their regular budgets. No rigid line of demarcation can, however, be drawn between assistance provided under the regular programmes and under the Expanded Programme. The two programmes are mutually complementary and are increasingly being jointly administered. In many instances continuing projects have been transferred from one programme to the other, and for some projects assistance has been provided partly under EPTA and partly under the regular programmes. Moreover, the research surveys and pilot projects carried out under the regular programmes often provide the basic support for technical assistance under EPTA.

115. Table 11 shows the value of technical assistance provided by the participating agencies in different areas of the world under their regular programmes in 1960. It can be seen that the total value of this assistance

**Table 11. Cost of technical assistance provided by participating organizations under regular and other programmes in 1960**

(Thousands of dollars)

Area	UNTA regular pro- gramme	ILO regular pro- gramme	UNESCO partici- pation pro- gramme	WHO			Total
				Regular pro- gramme	MESA <sup>a</sup>	IAEA	
Africa .....	455.0	57.2	99.0	1,475.6	751.2	45.3	2,883.2
Americas .....	573.5	41.8	432.9	1,178.7		144.9	2,371.8
Asia and the Far East .....	727.4	78.2	308.2	2,392.8	1,736.2	267.2	5,510.0
Europe .....	189.4	32.0	145.2	993.9	154.1	357.0	1,871.6
Middle East .....	224.9	35.3	169.6	885.4	464.5	173.0	1,952.7
Interregional .....	168.3	84.2	—	382.4	290.9	—	925.7
Undistributed .....		5.4	—	—	—	—	5.4
<b>TOTAL</b>	<b>2,338.5</b>	<b>334.1</b>	<b>1,154.9</b>	<b>7,308.7</b>	<b>3,396.9</b>	<b>987.3</b>	<b>15,520.4</b>

Source: Official Records of the Economic and Social Council, Thirty-second Session, Supplement No. 5, document E/3471.

<sup>a</sup> Malaria Eradication Special Account.

amounted to \$15.5 million in that year; the corresponding figure for 1959 was \$13.5 million. In both years the aid provided by WHO, under its regular and the special malaria eradication programmes, accounted for over two-thirds of the total assistance of the participating organizations.

### Special Fund

116. The most recent agency established in the United Nations for the purpose of providing economic assistance to under-developed countries is the United Nations Special Fund, which began operations at the beginning of 1959. As explained below, the resources of the Special Fund are devoted largely to financing preinvestment operations, such as resource surveys, applied research and vocational and advanced technical training.

117. The Special Fund collaborates closely with the United Nations Expanded Programme of Technical Assistance, from which some of its projects have arisen. The two agencies have a joint field staff and a joint administration division at Headquarters. The work of the Special Fund is also co-ordinated with other developmental work of the United Nations, and with that of the World Bank through a consultative board composed of the United Nations Secretary-General, the Executive Chairman of the Technical Assistance Board and the President of the World Bank; the board meets with the Managing Director of the Special Fund to advise him in the examination and appraisal of project requests and proposed programmes of the Fund. The Special Fund seeks to co-ordinate its work with national, bilateral and regional development projects.

118. Projects authorized by the Special Fund are financed on a partnership basis between the recipient governments and the Fund. The contributions of the Special Fund to projects are generally determined by reference to the foreign exchange component of the total cost of the projects.<sup>47</sup> As shown below, the Fund's allocations to the projects approved up to January 1962 amounted to only slightly over 40 per cent of the total cost of the projects; the balance of about 60 per cent represents counterpart contributions of recipient governments. Each project is covered by a Plan of Operation which amounts to a contract between the Special Fund, the executing agency<sup>48</sup> and the government; it describes the detailed technical and financial aspects of the project's implementation.

119. The operations of the Special Fund have expanded steadily since 1959. It can be seen from the following table that both the number of projects approved by the General Council of the Special Fund and the value of the Special Fund allocations in respect of these projects have shown a rising trend in the last three years.

## SPECIAL FUND ALLOCATIONS, 1959-1961

*(Value in millions of dollars)*

Governing Council session	1959		1960		1961	
	Number	Value	Number	Value	Number	Value
May .....	13	9.9	30	22.8	42	34.6
December .....	31	27.0	41	36.2	48 <sup>a</sup>	42.8 <sup>a</sup>
TOTAL	44	36.8	71	59.0	90	77.4

Source: United Nations Special Fund.

<sup>a</sup> Projects approved by the Governing Council session held in January 1962.

120. The expansion of the Special Fund operations has been made possible by a growing financial support received from the contributing governments. The amount of contribution pledges rose from \$26 million for 1959 to \$39 million for 1960 and to \$47 million for 1961. It is estimated, on a conservative basis, that for 1962 the value of pledges will amount to \$56 million.<sup>49</sup>

121. As mentioned earlier the resources of the Special Fund are devoted primarily to financing preinvestment operations, as crucial elements in accelerating the pace of economic development. Table 12 gives a broad indication of the extent of contribution of the Fund to the major categories of preinvestment activities. It can be seen that 205 projects for various

<sup>47</sup> The Special Fund contributions usually cover the cost of experts' services, of fellowships and of project equipment imported from abroad.

<sup>48</sup> The executing agents consist of the United Nations and of specialized agencies.

<sup>49</sup> By December 1961 an amount of \$54.6 million had already been pledged for 1962.

Table 12. Special Fund, approved projects, May 1959 to January 1962

	<i>Number of projects</i>	<i>Special Fund allocation (millions of dollars)</i>
<i>Surveys</i> .....	83	59.3
Mineral and geological .....	15	12.7
Water power, hydrological and meteorological .....	14	9.7
River basin .....	10	9.6
Other land and water use .....	32	19.4
Transport and communication .....	4	2.2
Industrial and other .....	8	5.7
<i>Research</i> .....	41	40.0
Agricultural, forestry, veterinary and fishery .....	24	24.3
Industrial and other .....	17	15.7
<i>Training</i> .....	78	69.3
Agricultural, forestry, veterinary and fishery .....	12	9.1
Industrial .....	46	42.5
Transport and communication .....	11	8.6
Other .....	9	9.1
<i>Economic Development Planning</i> .....	3	4.8
TOTAL	205	173.4
Governments' counterpart contribution		241.4
Total cost of projects		414.8

Source: United Nations Special Fund.

categories of surveys, research and training had been approved up to January 1962. By the end of 1961, plans of operation had been signed for 116 of these projects and work had been authorized to start on 106 of them. The total cost of the approved projects amounts to \$415 million, of which the Special Fund Allocation is about \$173 million.<sup>50</sup>

122. Since the figures of allocations represent the full amount provided by the Fund for the projects' entire duration, averaging about four years, the actual expenditure of the Special Fund has up to now amounted to only a small fraction of the allocations. In 1959, for example, the outlays from the Special Fund allocations were negligible; in 1960 they amounted to about \$3 million and in 1961 they are estimated at about \$12 million.

123. It can be seen from the above that the value of economic assistance channelled through the United Nations and its specialized agencies,

<sup>50</sup> The actual contribution of the Special Fund to the cost of the projects is less than \$173 million. This figure of "Special Fund Allocation" includes the recipient governments' cash payments for local operating costs, representing 15 per cent of the gross expert cost of the projects. It also includes some \$5 million cash counterpart contributions made by some recipient governments.

excluding the IBRD and its affiliates, amounted to about \$115 million in 1960. Of this amount the two relief agencies (UNHCR and UNRWA) accounted for about \$50 million, UNICEF for about \$20 million and technical assistance programmes and the Special Fund for about \$45 million. The figure of \$115 million is equivalent to slightly over 2 per cent of the average annual flow of capital into under-developed countries in 1956-1959, as estimated in the United Nations report mentioned earlier. The amount of economic aid channelled through the United Nations would increase by about \$50 to \$60 million per annum—i.e., from 2 to 3 per cent of the total flow mentioned above—when the disbursements of the Special Fund and EPTA reach the current level of allocations and pledges.

124. For convenience, a summary of the foregoing discussion on the relative magnitude of the different flows of external capital into under-developed countries in recent years is given in the following table. Since the final figures of all the flows of capital in 1960 are not as yet available, the relative share of the different streams indicated in the table may not be completely accurate. Such inaccuracies as may be discovered in these estimates, however, are likely to be relatively small and would not alter significantly the broad picture emerging from the table. About 90 per cent of the total inflow of capital into under-developed countries in recent years has been on a bilateral basis. Of the remaining 10 per cent, the World Bank and its affiliates—IFC and IDA—have accounted for slightly over one-half. Regional agencies, including the Colombo Plan, have provided 2 per cent, and the United Nations relief, technical assistance and preinvestment aid, also about 2 per cent of the total inflow of capital.

RELATIVE SHARE OF FLOWS OF CAPITAL IN 1960

(Percentage of total flow)

Bilateral .....	90
Multilateral .....	10
Regional organizations, not related to the United Nations <sup>a</sup> .....	2
IBRD, IFC and IDA .....	6
United Nations <sup>b</sup> .....	2
	TOTAL
	100

Source: Division of General Economic Research and Policies of the United Nations Secretariat.

<sup>a</sup> Including the Colombo Plan aid, which is given on a bilateral basis.

<sup>b</sup> Consisting of relief agencies (UNHCR and UNRWA), UNICEF, EPTA, Special Fund and regular programmes of technical assistance of the United Nations and specialized agencies.

125. The volume of economic assistance provided by multilateral agencies should increase considerably in the near future as a result of the recent operations of some of the agencies described above. Whether this would result in an appreciable rise in the share of multilateral agencies in the total flow of capital to under-developed countries will depend on the rate at which the bilateral flow of capital increases. Owing to the large volume of loans and grants recently provided by the Inter-American Development Bank, the Alliance for Progress programme and the EEC



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Development Fund, it is probable that the share of the regional organizations not related to the United Nations will increase to a level substantially higher than the figure of 2 per cent shown in the above table. The proportion of aid granted through the United Nations relief agencies, UNICEF, technical assistance and the Special Fund, however, is likely under present programmes to remain relatively small. Even when the volume of disbursements of the Special Fund and EPTA reach the 1961-1962 level of commitments and pledges, the share of aid channelled through the United Nations would still amount to only about 3 per cent of the average annual flow of capital in 1956-1959.

#### IV. DIRECTION OF FUTURE EFFORTS IN ECONOMIC ASSISTANCE

126. The foregoing review of the studies made on the global external financial requirements of the under-developed countries points to the need for a substantial rise in the existing level of capital flow to these countries. There has been, as noted above, an appreciable rise in the volume of foreign funds channelled to the under-developed areas of the world in the course of the last decade, which has made a significant contribution to their capital resources. Despite this favourable development, the experts consider that during the next decade or so additional economic assistance of the order of magnitude of \$2.5 to \$3.5 billion per year is required to make significant progress in accelerating the pace of development of under-developed countries.

127. As mentioned earlier, owing to the nature of the global estimates on capital requirement, it would be prudent to exercise due caution in interpreting the above figures. These estimates do not claim to provide an accurate statistical measure of the external capital requirements of the under-developed countries. The important practical purpose served by these studies is to indicate the general order of magnitude of the problem of capital aid. In this way they underline the fact that, to speed up the pace of development of the under-developed countries, the volume of foreign economic aid must for some years to come be raised substantially above its current level. This conclusion is also supported by the three limited estimates of capital requirement related to Latin America, India and African education summarized above.

128. At its sixteenth session the General Assembly passed a number of resolutions calling for further action to raise the international flow of capital. In resolution 1711 (XVI) the General Assembly reaffirmed its resolution of the fifteenth session<sup>51</sup> expressing the hope that the annual flow of international assistance and capital "should be increased substantially so that it might reach as soon as possible approximately 1 per cent of the combined national income of the economically advanced countries". Similarly, in resolution 1710 (XVI), in designating the current decade as the "United Nations Development Decade", the Assembly called upon the Member States "to pursue policies that will lead to an increase in the flow of development resources, public and private, to developing countries on mutually acceptable terms". In the same resolution the Assembly asked for a substantial increase in the rate of growth of under-developed countries, "with each country setting its own target, taking as the objective a minimum annual rate of growth of aggregate national income of 5 per cent at the end of the decade".

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<sup>51</sup> See *Official Records of the General Assembly, Fifteenth Session, Supplement No. 16*, resolution 1522 (XV).

### Grants and "soft" loans

129. An important problem regarding the flow of external capital into under-developed countries relates to the proportion of the capital that should be provided in the form of grants and "soft" loans. This type of economic assistance is required, partly to meet the needs of the relatively poorer countries whose foreign exchange situation is such that they are not able to borrow abroad at all on conventional terms. In addition, there is, as explained below, a large group of countries whose burden of servicing foreign debt has risen so high that they cannot prudently borrow on conventional terms all of the external capital required to carry out their development programmes. To assist such countries in their development efforts it would be necessary to meet part of their foreign capital requirements also through grants and "soft" loans.

130. It was pointed out earlier that there has been during the nineteen fifties a substantial increase in the volume of dividend and interest payments made by under-developed countries on foreign loans and investments. This development is in part accounted for by a rise in interest payments on public debts contracted by the under-developed countries. Estimates of external public indebtedness of the under-developed countries contained in the World Bank studies<sup>52</sup> indicate a steep rise in this indebtedness during the last decade.

131. A further conclusion emerging from the IBRD studies is that a relatively large part of the public debt contracted during the period covered by them has been medium-term debt, with a high rate of amortization. Consequently, despite a rise in interest rates in the major capital exporting countries since the end of the war, there has been a much more rapid increase in principal repayments than in interest payments. This trend, which suggests a shortening of the average effective period of repayments, is expected to continue for several under-developed countries for some years to come.

132. The World Bank studies draw attention to the serious limitations placed by the rise in debt service charges — amortization and interest payments — on the capacity of some under-developed countries to borrow additional foreign capital on conventional terms. These developments clearly point to the need for raising the share of grants and "soft" loans in the total flow of capital to under-developed countries. This need was emphasized by the President of the Bank in the course of his address to the Annual Meeting of the Bank's Board of Governors in September 1961. After pointing out the high burden of foreign debt service of a large group of under-developed countries, he added, "It is going to be harder and harder to keep development projects and programmes moving ahead

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<sup>52</sup> Dragoslav Avramovic, *Debt Servicing Capacity and Post-war Growth in International Indebtedness* (The Johns Hopkins Press, Baltimore, 1958); Dragoslav Avramovic and Ravi Gulhati, *Debt Servicing Problems of Low Income Countries, 1956-1958* (The Johns Hopkins Press, Baltimore, 1960).

in an orderly fashion and at an orderly pace unless the aid mixture has a larger component of funds on a grant basis or on terms comparable with the IDA's." 53

133. In this connexion, the President of the Bank stressed in his speech the inadequacy of the present resources of IDA to meet the requirements of under-developed countries for "soft" loans. On the basis of the experience gained thus far he was "absolutely convinced" that, "even on a conservative estimate, IDA's funds are likely to fall far short of the need". He called for additional funds to be provided "through IDA or some other channel", so "that a greater proportion of the development capital provided could bear terms comparable to IDA's". There was, otherwise, according to him, the risk that "the machinery of economic development could be loaded with foreign debt until it sputtered to a halt amid half-built projects and mountains of discarded plans".

134. It is in the light of these needs, on the one hand, of increasing the volume of economic assistance to under-developed countries and, on the other, of raising the share of grants and "soft" loans in the total economic aid, that the General Assembly has acted in the matter of the United Nations Capital Development Fund. The fifteenth session of the General Assembly decided in principle to establish such a fund.<sup>54</sup> This decision was reaffirmed by the sixteenth session of the General Assembly, which extended the mandate of the Committee on a United Nations Capital Development Fund and instructed that committee to prepare the necessary draft legislation (statute) for a United Nations Capital Development Fund.<sup>55</sup> Although this legislation has not as yet been drafted, it is clear from the general discussion on the objectives of this fund that its primary purpose is to provide additional resources for United Nations economic assistance, largely in the form of grants-in-aid and "soft" loans to under-developed countries.

### Utilization of surplus food for economic development

135. Owing to a deficiency in food production in many under-developed countries a substantial part of the foreign economic aid channelled to them could be provided in the form of food products. This type of aid, in addition to meeting the emergency relief requirements which arise in some areas from time to time, can also make a significant contribution to the economic development of the recipient countries.

136. In the under-developed countries a large part of the increase in incomes generated by growing investment in the process of development is spent on consumer goods and especially on food. Owing to the technical difficulties of raising the level of agricultural production rapidly over short

<sup>53</sup> See IBRD/IDA, *Summary Proceedings, 1961 Annual Meetings of the Board of Governors* (Washington, D.C.).

<sup>54</sup> See *Official Records of the General Assembly, Fifteenth Session, Supplement No. 16*, resolution 1521 (XV).

<sup>55</sup> See General Assembly resolution 1706 (XVI).

periods of time, it is not always possible to meet the increase in food demand by raising domestic production. In such conditions the underdeveloped countries are compelled to spend part of their foreign exchange earnings on the import of food products, thereby reducing their capacity to import capital goods and raw materials essential to their development. The alternative courses of action open to the countries concerned would be either to reduce the level of investment and to slow down their pace of development, or to permit the growth of inflationary forces, generated by shortages of food, which if unchecked could disrupt the whole process of development. The economic aid supplied in the form of food would enable such countries to maintain their development programmes without either using part of their valuable foreign exchange earnings on purchases of food from abroad or experiencing disruptive inflationary conditions.

137. In the light of these facts the General Assembly, at its fifteenth session, passed a resolution on "Provision of food surpluses to food-deficient peoples through the United Nations system".<sup>56</sup> This resolution led to the report of the Director-General of the FAO<sup>57</sup> in which the subject of utilizing the world food surpluses as an effective transitional means to assist economic development in under-developed countries was examined in some detail. Following further discussions of the matter within the United Nations family,<sup>58</sup> the FAO Conference at its eleventh session and the General Assembly at its sixteenth session passed resolutions<sup>59</sup> approving the establishment of an experimental World Food Programme to be undertaken jointly by the United Nations and the FAO.

138. The latter resolution of the General Assembly endorses the purposes, principles and procedures formulated in the first part of the resolution approved on the matter by the Conference of the FAO in November 1961, which envisages an initial experimental programme for three years of approximately \$100 million. The contributions to the Programme, which are to be on a voluntary basis, "may be pledged by countries in the form of appropriate commodities, acceptable services and cash, aiming in the aggregate at a cash component of at least one-third of the total contributions". According to the joint proposal submitted by the United Nations and the FAO on the subject, the purpose of the Programme is "to help finance emergency relief and international food reserves; national food reserves; relief of chronic malnutrition, infant, pre-school and school feeding, educational fellowships, and other social development activities; labour-intensive and other economic development activities".<sup>60</sup>

<sup>56</sup> See *Official Records of the General Assembly, Fifteenth Session, Supplement No. 16*, resolution 1496 (XV).

<sup>57</sup> Food and Agriculture Organization of the United Nations, *Development Through Food, A Strategy for Surplus Utilization* (Rome, 1961).

<sup>58</sup> These discussions took place in the FAO Council and its subordinate bodies and in the thirty-second session of ECOSOC.

<sup>59</sup> See FAO Conference resolution 1/61 and General Assembly resolution 1714 (XVI).

<sup>60</sup> See *Official Records of the General Assembly, Sixteenth Session, Annexes*, agenda item 28 (e), document A/4907, paragraph 3.

139. The General Assembly resolution also asks for expert studies which would aid in the consideration of the future development of multi-lateral food programmes. It expresses the hope that, "in the light of these studies and of the experience gained, the progress of the experimental programme would be such as to permit the United Nations and the FAO to consider the possibility and advisability of increasing the programme".

### **Technical assistance and preinvestment operations**

140. In addition to their requirements for external capital resources, the under-developed countries have a very pressing need for technical assistance and for the type of aid provided by preinvestment operations described above. A rise in the volume of this category of assistance would enable the recipient countries to mobilize more rapidly their domestic resources for the purpose of economic development. It would also help them in making a more effective use of the foreign capital resources made available to them.

141. The under-developed countries possess vast physical resources which have to be identified through systematic investigations. They also dispose of a very large reservoir of human resources which, when educated and trained, could become a potent factor in the process of economic development. At the present time these countries, despite their large labour resources, suffer from a shortage of highly trained and skilled manpower, and have a big and growing need for services of experts in the various branches of their economy and administration. Although, as noted above, the technical assistance provided by the United Nations family of organizations has so far been relatively modest in scope, the transplanting of skills under EPTA and other United Nations programmes has helped in furthering the development of infrastructure as a basis for industrial growth. A number of these projects have proven instrumental in creating new openings for capital outlay and new opportunities for investment.

142. At its fifteenth session the Assembly set a target of \$150 million for contributions to the Expanded Programme of Technical Assistance and to the Special Fund.<sup>61</sup> Although, as mentioned earlier, there has been a steady growth in financial support given to the two programmes in recent years, there still remains a wide gap between the present level of contributions and the target figure of \$150 million. At the end of 1961 indications were that the pledges of contributions to the two programmes for 1962 would amount to about \$100 million. The General Assembly, in its resolution 1715 (XVI) has, however, called upon governments to review their contributions to the Expanded Programme and to the Special Fund "so that the combined budgets for these two organs in the year 1962 reach the target of \$150 million".

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<sup>61</sup> See *Official Records of the General Assembly, Fifteenth Session, Supplement No. 16*, resolution 1529 (XV).

### Foreign trade measures

143. Although the foreign economic aid and technical assistance, discussed in this report, can play an important role in accelerating the process of economic development, they do not constitute the only channels through which the international community can assist the under-developed countries in their development efforts. Measures designed to expand the export markets of under-developed countries and to stabilize their export prices can have an equal, if not greater, impact in speeding up their pace of development. As noted earlier, the external aid required by the under-developed countries will, other things being equal, vary inversely with the volume of foreign demand for their exports.

144. The rate at which under-developed countries can expand their exports depends, in part, on the rate of growth of production in industrial areas of the world. It also depends on trade policies of the industrial countries and in particular on the measures related to the protection of their domestic industries against imports of primary products and manufactures from under-developed countries. A significant contribution to the development of under-developed countries can, therefore, be made by industrial countries through an acceleration of their own rate of growth and through a reduction of import duties and protective measures which adversely affect purchases of goods from under-developed areas of the world. At its sixteenth session the General Assembly in resolution 1707 (XVI) called upon governments "to make every effort to liberalize the restrictive or discriminatory practices that unnecessarily limit the consumption and importation of commodities", and urged the economically developed Member States to create conditions which would extend to under-developed countries "advantages not necessarily requiring full reciprocity".

145. The development efforts of the under-developed countries can also be supported by international measures which would contribute to the stabilization of the world prices of primary commodities; these commodities account for a preponderant share of the exports of under-developed countries. Prices of primary commodities have long been characterized by violent fluctuations which add to the difficulties of maintaining internal stability in the under-developed countries and handicap the planning and realization of economic and social development objectives.

146. The problem of instability of trade in primary commodities has for long been a major preoccupation of the United Nations and its economic organs. It has been a subject of close analysis in a number of reports prepared within the Organization.<sup>62</sup> Moreover, the problem of instability of trade in primary commodities has been a major topic of deliberation of the Commission on International Commodity Trade since its establishment in 1954. The most recent report on this subject is entitled *Inter-*

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<sup>62</sup> See, for example, United Nations, *Measures for International Economic Stability* (Sales No.: 51.II.A.2); and *Commodity Trade and Economic Development* (Sales No.: 54.II.B.1).

*national Compensation for Fluctuations in Commodity Trade*,<sup>63</sup> which was submitted early in 1961 by a group of experts in response to General Assembly resolution 1423 (XIV).

147. The report of the experts points out the adverse effects of instability in commodity trade on the economies of the under-developed countries and the inadequacy of the existing instruments of compensatory finance to deal with the problem of fluctuations in the foreign exchange earnings of these countries. It recommends the establishment of a "development insurance fund", into which all member countries would pay contributions and against which members would make financial claims. It is suggested that the scheme should embrace both the advanced and under-developed countries even if on unequal terms with respect to the distribution of costs and benefits; it is envisaged that "there would be a net transfer of payments predominantly or exclusively to the participating under-developed countries". The experts emphasize that the insurance proposals contained in their report should be regarded as complementary, not alternative, to the development of existing instruments of compensatory finance, such as the IMF, and to direct measures aimed at reducing or eliminating the instability in trade.

148. The above report, together with a report on the subject prepared by the United Nations Secretariat at the request of the CICT,<sup>64</sup> will be considered by the CICT at its tenth session. A separate report by the Secretariat on the applicability of the scheme to individual commodities will be submitted to the joint session of the CICT and FAO/CCP in April-May 1962.<sup>65</sup> Recommendations on the subject will be sent to the Economic and Social Council at its thirty-fourth session and to the General Assembly at its seventeenth session.

### Aid to Africa

149. Over and above its concern with general problems of aid for the economic development of all under-developed countries, the world community has in recent years been devoting special attention to the particular foreign aid requirements of the African continent. With the emergence of new independent nations in Africa, many of which are at a relatively early stage of development where very low standards of living continue to prevail, has come a wide-spread realization of the urgent necessity to accelerate their pace of development, and to strengthen and consolidate their economies.

150. At its sixteenth session, the General Assembly passed two resolutions on the specific problems of aid to Africa. In resolution 1717 (XVI)

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<sup>63</sup> United Nations, *International Compensation for Fluctuations in Commodity Trade* (Sales No.: 61.II.D.3).

<sup>64</sup> United Nations, *Stabilization of Export Proceeds through a Development Insurance Fund* (E/CN.13/43).

<sup>65</sup> United Nations, *A Development Insurance Fund for Single Commodities* (E/CN.13/45).



the Assembly welcomed the decision of the Conference of African States on the development of education in Africa, discussed earlier in this report, and invited Member States of the United Nations and of the specialized agencies "to contribute financial and technical assistance to the African countries, in accordance with the needs of these countries, taking into account the estimates of the Conference for the years 1961-1965". The Assembly also invited UNESCO to convene in 1963, jointly with the ECA, another conference of African States "to review the execution, costs and targets of the plan adopted by the Conference".

151. In resolution 1718 (XVI) the Assembly pointed out a number of directions in which future efforts of assistance to economic development of Africa should be channelled. It urged the establishment of a programming institution within the ECA and of an African Institute of Economic Development and Planning under the auspices of the ECA and with the assistance of the United Nations Special Fund. In addition, the resolution emphasized the importance of establishing regional economic development banks for Africa, and called for further studies on measures required for increasing the volume of domestic savings and for accelerating the flow of foreign capital, public and private, to African countries.

## V. CONCLUSION

152. In accordance with the recommendations of the Committee on a United Nations Capital Development Fund, this report has reviewed the available estimates of the external capital needs of the less developed countries in the light of data on the recent flow of such capital and the activities of existing institutions in fulfilling these needs.

153. One incidental conclusion of this review concerns the ambiguity — conceptual as well as statistical — that still surrounds many of the terms in current use, including such seemingly simple ones as “development capital” and “economic assistance”. As a result, serious difficulties are encountered in making quantitative estimates of past capital movements. The figures cited in this report must be interpreted with this constantly in mind: they do no more than indicate broad orders of magnitude.

154. With these limitations in mind, the report cites data to show the relative magnitude of the international flow of capital in recent years, not only in comparison with the national income of capital supplying countries but also in comparison with the foreign exchange earned by capital-receiving countries by means of merchandise exports and in relation to the volume of capital raised by these countries from domestic resources.

155. When it comes to capital requirements in the future rather than flows in the past, the problems of estimation are greatly magnified. In this connexion it may be well to take note of the importance of General Assembly resolution 1708 (XVI) which, in calling for a number of steps designed to assist under-developed countries in drawing up and implementing well-integrated development plans, requests the Secretary-General to establish an Economic Projections and Programming Centre. Among its functions such a centre would seek to prepare projections of trends in world production and trade and thereby help to provide a more solid and rational frame of reference within which the future external capital requirements of under-developed countries can be more clearly estimated.

156. The report refers to several important steps taken by the General Assembly to promote the flow of capital aid. General Assembly resolution 1710 (XVI) designates the nineteen sixties as the “United Nations Development Decade” and calls upon Member States “to pursue policies that will lead to an increase in the flow of development resources, public and private, to developing countries on mutually acceptable terms” and sets as an objective a minimum annual rate of growth of aggregate national income of 5 per cent at the end of the decade. General Assembly resolution 1711 (XVI) urges the acceleration of the flow of capital to developing countries and expresses the hope that this flow would as soon as possible reach one per cent of the combined national incomes of the economically advanced countries.

157. The part played by various multilateral agencies in augmenting and directing this flow of capital is examined in some detail. It is shown that these agencies are extremely diverse in purpose and in method of operation. At present there is no established mechanism within the United Nations to keep under systematic and continuous review developments in the field of capital aid. Yet the increasing concern of the General Assembly and of the Economic and Social Council with the total magnitude, as well as with conceptual and operational aspects of capital aid to the less developed countries, would seem to make a regular comprehensive review most desirable. Such a review could encompass the analysis of the problems of capital aid as one of the major components of a multi-faceted programme for accelerating the rate of economic development.

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